



Utah Counties Insurance Pool  
*Serving Counties Since 1992*

# AGENDA

## BOARD OF TRUSTEES MEETING

August 23, 2005, 7:00 p.m.

Sizzler Restaurant, 199 North Main, Cedar City

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7:00	Dinner & Call to Order	Dan McConkie
	Review of Board Members Absent	Dan McConkie
	Approval of June 23 Minutes	Dan McConkie

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### ITEM INFORMATION

1	Loss Control Manager's Report	Mark Brady
2	Chief Executive Officer's Report	Lester Nixon
3	Second Quarter Financial Report	Lester Nixon

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### ACTION

4	Approve Amended Bylaws for Submittal to the Membership	Kay Blackwell
5	Approve Amended Interlocal Cooperation Agreement for Submittal to the Membership	Kay Blackwell
6	Approve Records Retention Joint Policy	Lester Nixon
7	Approve Revised Conflict of Interest Joint Policy	Lester Nixon
8	Consider Report of Marsh/Mercer Benefits Regard Phase II of the Health Pool Feasibility Study (a decision to proceed may require a vote of the Trustees).	Ann Thomas
9	Set Date and Time for Closed Meeting to Discuss Pending or Reasonably Imminent Litigation	
10	Action on Litigation Matters	Kent Sundberg
11	Set Date and Time for Closed Meeting to Discuss Character, Professional Competence, Physical/Mental Health of an Individual	
12	Ratification and Approval of Payments and Credit Card Transactions	Gene Roundy

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Other Business



## BOARD OF TRUSTEES MEETING

### MINUTES

August 23, 2005, 7:00 p.m.  
Sizzler Restaurant, Cedar City, UT

#### BOARD MEMBERS PRESENT

Dan McConkie, *President*, Davis County Commissioner  
Lynn Lemon, *Vice President*, Cache County Executive  
Gene Roundy, *Secretary-Treasurer*, Iron County Commissioner  
Steve Baker, Davis County Personnel Director  
Kay Blackwell, Piute County Commissioner  
Jim Eardley, Washington County Commissioner  
Jerry Grover, Utah County Commissioner  
Ira Hatch, Emery County Commissioner  
Kent Sundberg, Utah County Deputy Attorney  
Steve Wall, Sevier County Clerk-Auditor

#### BOARD MEMBERS ABSENT

Ken Bischoff, Weber County Commissioner  
Ed Phillips, Millard County Sheriff

#### OTHERS PRESENT

Lester Nixon, Chief Executive Officer  
Mark Brady, Loss Control Manager  
Sonya White, Manager of Administration  
Korby Siggard, Claims Manager  
Charmaine Green, Claims Specialist  
Brody Parker, Safety Specialist  
Bob Bennett, Alternative Service Concepts  
Mike Livermore, Alternative Service Concepts  
Trudy Stauffer, Alternative Service Concepts  
Leonard Grover, Marsh Risk & Insurance Services  
Ann Thomas, Marsh Risk & Insurance Services

#### Call to Order

Dan McConkie called the meeting of the Utah Counties Insurance Pool Board of Trustees to order at 7:00 p.m. on August 23, 2005. Dan welcomed those in attendance.

#### Review of Board Members Absent

Ken Bischoff requested to be excused from this meeting due to his attendance at a public hearing. Ed Phillips was scheduled to attend but had not arrived. Ira Hatch made a motion to excuse Ken Bischoff and Ed Phillips from this meeting. Gene Roundy seconded the motion, which passed unanimously.

#### Approval of June 23 Minutes

The minutes of the Board of Trustees meeting held June 23, 2005 were previously sent to the Board of Trustees for review. Steve Wall requested that the second to the last sentence, item **Benefits Pool Feasibility Study**, page two, should read: *The perception of the employee is that benefits ~~and if they~~ will be taken away if the employee changes to a new pool.* Steve Wall made a motion to approve the June 23 meeting minutes as corrected. Steve Baker seconded the motion, which passed unanimously.



### Loss Control Manager's Report

Mark Brady reported that attendance at this year's Risk Management Certification Program (August 22, 23 and 24) is up 15 to 35% depending on the day. Starting in September, Mark will begin his county visits for the Risk Management Program and Loss Control Program qualifications. He is hoping for another record year in premium credits.

### Chief Executive Officer's Report

Lester Nixon introduced Chief Executive Officer, Bob Bennett, Alternative Service Concepts (ASC); sponsor of the Risk Management Certification training. Mike Livermore of the Reno ASC office was also introduced as well as Trudy Stauffer the new ASC Claims Adjuster for the UCIP Workers' Compensation account.

AGRIP Governance Conference. Lester provided the Board with a copy of the brochure and registration information for the November 14-16 Conference (see attachment #1) and asked those who can attend to contact Sonya White to make travel and registration arrangements. Tickets for the Spurs game have been purchased for attendees. An activity would have been scheduled for the Board and staff if the Pool had a contracted broker. If the Board feels this practice is a problem please contact Lester.

Washington County. Lester reported that he inspected the Washington County Silver Reef historic property and attended the County employee appreciation dinner on July 8.

Tooele County. Lester reported that he inspected the Wendover Airport premises and buildings on July 19. Tooele County has 58 buildings listed at this site without any construction information (see attachment #2). Lester is working with the County to have all these buildings (that are listed on the national register of historical places—due to the Enola Gay being based there prior to the bombing of Hiroshima in World War II) appraised. Lester recommended that the Board meet and tour the premises next year.

County Reinsurance Limited (CRL) Annual Report. Lester provided the Board with a copy of CRL's Annual Report that includes a letter to members (see attachment #3). In the year 2004, CRL added Utah, Tennessee and Nevada for a total of 15 states in the Pool and an increase in premium of 14%. Net income is up six times from the previous year.

Planning Document. Lester provided the Board with an updated copy of the UCIP Planning Document approved by the Board during its annual retreat June 2-3 (see attachment #4).

Insurance Market Report. Marsh USA Risk and Insurance Services forwarded a copy of the second quarter US Insurance Market Report to Lester who provided the Board with a copy (see attachment #5). Prices are going down in most areas and should continue through next year. The Pool should expect a flat liability premium rate with CRL for the 2006 program.

Benefits Pool. The Benefits Pool Committee met telephonically on August 4 and 18 for an update from Marsh/Mercer on Phase II of the study.

Wasatch Mental Health. Lester reported that Wasatch Mental Health, a controlled entity of the Utah County Commission, requested a proposal for Workers' Compensation coverage from the Pool. The annual premium of \$48,155 was accepted and coverage began July 1. Wasatch Mental Health has 350 employees and very good experience.

Workers' Compensation Claims Report. Lester provided the Board with a spreadsheet showing the 2005 claims open/closed counts, total paid/reserved/incurred and loss ratio as of July 31. All years (2004 and 2005) as of July 31 counts, incurred and loss ratio was also charted for the Board (see attachment #6). Loss ratio for 2005 is at 71.41% and all year's loss ratio is at 67.87%—increase due to an employee death in Juab County.

Multiline Claims Report. Lester provided the Board with a spreadsheet showing the 2005 claims open/closed counts, total paid/reserved/incurred and loss ratio as of July 31. All years (1992 through 2005) as of July 31 counts, incurred and loss ratio was also charted for the Board (see attachment #7). Loss ratio for 2005 is at 33.67% and all year's loss ratio is at 48.58%.



## Second Quarter Financial Report

Lester Nixon reviewed the second quarter 2005 in-house prepared, unaudited financial statements as of June 30 with the Board (see attachment #8). As approved by the Board, the Balance Sheet shows a decrease in the Public Treasurers Investment Fund (PTIF) and an increase in Unrestricted Investments of \$2 million for the short-term investments being made through UBS Financial Services. PTIF is up to a 3.25% interest rate but UBS is still higher averaging 3.78%. Lester recommends that the Board continue to work with UBS for the Pool's short-term investing and an update on these investments will be provided to the Board at its October meeting. The assets of the Pool, except for its equity in the building, are being booked and depreciated. The Budget to Actual Comparison for the Multiline, Workers' Compensation and Administration budgets are on-track with the year 50% complete. Lester is working with a consultant and Utah Local Governments Trust in reducing the Workers' Comp self-insurers tax imposed by the Labor Commission. The Pool had to pay \$90,000 last year but it looks like \$35,000 will be refunded back into the Workers' Comp Pool.

## Consider Report of Marsh/Mercer Benefits Regarding Phase II of the Benefits Pool Feasibility Study

Ann Thomas reported that Phase I of the study showed that a Benefits Pool is feasible. As outlined in the Program Design (see attachment #9), the results of Phase II identifies the financial and network requirements of a Benefits Pool. The Pool plan design has three offerings: Health Maintenance Organization (HMO), Preferred Provider Organization (PPO) and Qualified High Deductible Health Plan (QHDHP) that allows a broader choice for employees (plan type definitions are listed on page 12). Page 9 shows a comparison of the counties' current plan designs followed by page 10 showing a brief overview of the triple offering of benefits for the Pool. The pharmacy benefit is included in the vendor quotes which have been summarized on pages 15-18. None of the vendors are willing to write a fully insured pool but will write a self-funded pool; this allows for more flexibility and control. Intermountain Health Care (IHC) declined to quote a self funded pool and Altius declined to quote due to their contract with Public Employees Health Program (PEHP). Ann explained that PEHP's option 1 quote is a fully funded quote (which is not an option that the Pool wants to consider) but PEHP's option 2 quote is more inline with the quotes submitted by Regence and United Health Care (UHC). Lester Nixon asked how the \$200,000 stop-loss, listed on the summaries, was determined. Ann explained that a factor is divided by the number of employees. A \$200,000 stop-loss was calculated based on a Pool size of 2,000 to 3,000 employees. The administrative cost comparison is listed on page 19 and other factors required by the vendors are outlined on page 22. In order to compare the costs, expected claims were based on actuarial assumptions and claims experience (page 25); all vendors used the same claims rates to quote. Leonard Grover explained that the chart on page 26 is based on in-depth interviews and survey work. Medical cost comparisons show a reduction of 8-10% on estimated claims by using Health Reimbursement Accounts (HRA) and Health Savings Accounts (HSA). Lester asked how the \$80 "load" compares to aggregate as shown on the claims rates estimated on page 29. Ann explained that aggregate causes minor modifications to the reserves instead of surplus being built. Increase/decrease in overall cost depends on what plans are utilized. Leonard anticipates surplus will build by the second year. Ann explained the three plans are designed to control cost and utilization. Over the next three years, getting employees educated and involved in the QHDH Plan will reduce costs the most. The Pool's main objective is for employees to have adequate coverage and affordable premiums. The Pool will obtain control when employees buy in to the concept of consumer driven health care. The estimated plan rates based on estimated enrollment by plan and tier are charted on page 39 for Regence including the administrative costs, stop loss, expected claims and load factor. HMO family rate \$920, PPO family rate \$862 and QHDHP family rate \$777. The Pool can be viable without Davis, Utah and Weber Counties. Ann recommended the following steps and dates to finalize the program: September 1 – final vendor selection; September 15 – information to counties with opt in/opt out decisions; and September 20 – finalize rates (may change due to final enrollment). Lester stated that the timeline is unrealistic.

All vendors attending the meeting were asked to leave during the Board's discussion on how to proceed with a member Benefits Pool.

Steve Baker said that the proposal reviewed by the Benefits Committee estimated much lower costs than were actually quoted by the vendors and the Committee asked Ann to provide current premiums, deductibles and loss ratio information by county. Lester explained that he has been given the information but it is confidential and cannot be discussed in an open meeting. Steve claimed that



smaller counties are not given large increases from PEHP but are benefiting from the PEHP pool. Linn Baker of PEHP may be able to provide UCIP with another option; Dan McConkie suggested that the Board meet with Linn. In polling the Board: Kay Blackwell, Gene Roundy, Jim Eardley, Kent Sundberg, Steve Baker (has additional concerns), Lynn Lemon (has additional concerns) and Dan McConkie want to move forward with (continue to look at) offering a Benefits Pool to the members; Ira Hatch and Steve Wall want to wait a year to market the program to the counties. The Board directed Lester to meet and market the program with the larger counties to find out how many employees the Board can expect will join. Lester feels that most, if not all, the smaller counties will join. The Board directed Steve Baker to set up a meeting for the Board to discuss an alternative option with Linn Baker.

#### Second Quarter Financial Report

Kay Blackwell reported that the Bylaws Committee met on April 27 to review the Bylaws and any amendments to be made prior to the annual membership meeting. Kay and Lester Nixon reviewed the proposed amendments with the Board (see attachment #10). Throughout the document, it is proposed that *Director* be changed to *Chief Executive Officer*. On page 4, section 5.1(c), language added: *One Trustee, appointed by the governing body of Washington County, representing Washington County.* Washington County is in the process of being reclassified as a second class county. The Board will be comprised of thirteen members following elections at the annual membership meeting. On page 5, sections 5.1(i-k), language rewritten to clarify that the Chair of the Law Enforcement, Litigation Management and Personnel Committees are appointed by the Board to serve a two-year term. On page 8, section 5.13(n), language added that the Board will create various committees and appoint the members of the committees. Gene Roundy made a motion to approve the Bylaws as amended. Ira Hatch seconded the motion, which passed unanimously.

#### Approve Records Retention Joint Policy

Lester Nixon explained that the Division of State Archives has template records retention schedules for counties. However, the Pool is unique in that it is required to submit any proposed retention schedule to Archives for approval. Lester reviewed the proposed Joint Policy Records Retention with the Board (see attachment #11). The policy creates the following categories of records and the number of years kept: multiline claims, workers' compensation claims, underwriting-coverages, underwriting-agency placement, financial, coverage documents or policies, personnel, and loss prevention. Kay Blackwell made a motion to submit the proposed Records Retention Policy to the Division of State Archives for approval. Once approved, the policy will be brought back to the Board of Trustees for approval. Lynn Lemon seconded the motion, which passed unanimously.

#### Approve Revised Conflict of Interest Joint Policy

Lester Nixon reviewed the proposed revisions to the Conflict of Interest Policy with the Board (see attachment #12). References to *Board Member* changed to *Trustees* and section 8 added in response to Jesse Trentadue's advice on the discussion of claims and Trustees excusing themselves from the discussion if the claim involves a conflict of interest. Steve Baker made a motion to approve the Conflict of Interest Policy as revised. Steve Wall seconded the motion, which passed unanimously.

#### Set Date and Time for Closed Meeting

Steve Wall made a motion to set the date and time for a closed meeting to discuss pending or reasonably imminent litigation for August 23, 2005 at 9:57 p.m. Lynn Lemon seconded the motion, which passed unanimously. Kent Sundberg excused himself due to a conflict of interest.

Steve Baker made a motion to conclude the closed meeting to discuss pending or reasonably imminent litigation on August 23, 2005 at 10:11 p.m. Kay Blackwell seconded the motion, which passed unanimously.

#### Action on Litigation Matters

Steve Wall made a motion authorizing settlement authority up to an amount of \$75,000 in the matter of UTA0000532005. Lynn Lemon seconded the motion, which passed 8-1, Kent Sundberg abstained.



#### Ratification and Approval of Payments

Gene Roundy reviewed the payments previously made, the payments to be made (see attachment #13) and the credit card transactions with the Board. Gene Roundy made a motion to approve the payments previously made, the payments to be made and the credit card transactions as reported. Kay Blackwell seconded the motion, which passed unanimously.

#### Other Business

Dan McConkie requested that at its next meeting the Board discuss expense reimbursement for Trustees. If a Trustee does not stay to all meetings/training scheduled for the Board then the Pool should not reimburse their expenses.

The Next meeting of the Board of Trustees is scheduled for October 20 at 12:00 p.m. at the Utah Counties Insurance Pool building.

Approved on this \_\_\_\_\_ day of \_\_\_\_\_ 2005

\_\_\_\_\_  
Gene Roundy, *UCIP Secretary-Treasurer*



# **AMENDED BYLAWS FOR THE UTAH ASSOCIATION OF COUNTIES INSURANCE MUTUAL POOL**

These Amended Bylaws are adopted and entered into by and among Members of the Utah Counties Insurance Pool ("Pool"), each of which hereby agrees to abide by the terms and conditions of these Amended Bylaws and all actions taken pursuant hereto.

## **ARTICLE 1. Authority.**

- 1.1 These Bylaws are amended pursuant to the provisions of Paragraph 4 of Section 4 of the Amended Interlocal Cooperation Agreement.

## **ARTICLE 2. Definitions.**

As used in these Bylaws, the following terms shall have the meaning hereinafter set out:

- 2.1 **Administrator.** The Board of Trustees of the Pool.
- 2.2 **Agreement.** The Amended Interlocal Cooperation Agreement for Utah Counties Insurance Pool.
- 2.3 **Articles.** The Articles of Incorporation of the Pool.
- 2.4 **Board of Trustees or Board.** The Board of Trustees of the Pool.
- 2.5 **Bylaws.** The Amended Bylaws for Utah Counties Insurance Pool.
- 2.6 **Code.** The Utah Code, including Utah Code Ann. Title 31A, as amended from time to time.
- 2.7 **County or Counties.** One or more of the twenty-nine counties of the State of Utah.
- 2.8 **~~Director~~ Chief Executive Officer.** The person designated by the Board of Trustees as ~~Director~~ Chief Executive Officer of the Pool.
- 2.9 **Member.** A county that is a party to the Amended Interlocal Cooperation Agreement.
- 2.10 **Meeting.** A meeting of the Board of Trustees where a quorum is present and for which proper notice has been provided in accordance with Utah law.
- 2.11 **Officer.** The President, Vice-President, or Secretary-Treasurer elected in accordance with these Amended Bylaws.



- 2.12 **Pool.** Utah Counties Insurance Pool, an Interlocal entity.
- 2.13 **Representative.** The person designated pursuant to Article 4.5b to be a Member's official representative for the purposes of the Pool.
- 2.14 **Trustee.** A natural person elected or appointed in accordance with Article 5 of these Amended Bylaws to a Trustee position on the Board.

### **ARTICLE 3. Pool.**

- 3.1 The Pool is a public agency insurance mutual and a political subdivision of the State of Utah as provided by law.
- 3.2 The Pool is formed, financed, organized, and shall operate in accordance with the Agreement, the provisions of these Bylaws and the Articles of Incorporation of the Pool.
- 3.3 The Pool may sue and be sued, complain and defend, in its corporate name.
- 3.4 The Pool is not assessable.
- 3.5 These Bylaws may be amended and shall continue in effect for a period of fifty years from the adoption date of the original Bylaws, at which time, they shall terminate unless renewed as permitted by law, or until earlier dissolved as provided herein.
- 3.6 The Pool shall have all powers necessary or desirable to achieve the purposes of the Pool as set forth in the Agreement, the Articles of Incorporation and these Bylaws.

### **ARTICLE 4. Members.**

- 4.1 Membership in the Pool is limited to Utah counties and county related entities that properly enter into the Agreement.
- 4.2 Counties, including former Members, may be admitted to the Pool after its formation only upon approval of the Board and subject to the conditions set out in the Agreement, these Bylaws and such additional conditions as the Board may from time to time require.
- 4.3 The Members shall have the power to:
  - (a) Elect Trustees pursuant to Article 5 of the Bylaws.
  - (b) Remove any Trustee from the Board by a two-thirds vote of the Members present at a meeting.
  - (c) Voluntarily dissolve the Pool, but only at a meeting at which a majority of all



Members, whether present at the meeting or not, vote in favor of the dissolution;

- (d) Amend the Bylaws by a two-thirds vote of the Members present at a meeting. Written notice of any proposed amendment shall be provided to each Member at least 30 days in advance of the vote thereon.
- (e) Amend the Articles of Incorporation by a two-thirds vote of the Members present at a meeting. Written notice of any proposed amendment shall be provided to each Member at least 30 days in advance of the vote thereon.

4.4 Members shall meet at least once annually. A meeting of the Members may be called by the Board or President pursuant to a procedure to be established by the Board, or upon written request executed by at least 30 percent of the Members.

- (a) Notice of any Member meeting shall be mailed to each Member at least 15 days in advance.
- (b) The President, Vice President, or Secretary-Treasurer of the Board shall preside at the meeting or the President's designee if no other Officer is present at the meeting.
- (c) A majority of the Members shall constitute a quorum to do business.
- (d) Proxy voting shall not be allowed.
- (e) Each Member shall be entitled to one vote, to be cast by its representative. The representative shall be designated by the Member in accordance with Article 4.5(b) of the Bylaws.
- (f) The location of meetings of Members will be as determined from time to time by the Board.

4.5 Members shall have the obligation to:

- (a) Pay promptly all premiums and other payments to the Pool at such times and in such amounts as shall be established in accordance with these Bylaws, including any interest and penalties for late payment as may be required by a policy adopted by the Board.
- (b) Designate in writing a representative and one or more alternate representatives for the Members' meetings. Each representative and alternate representative must be an elected or appointed officer or employee of a Member and must be appointed by majority vote of the governing body or by the county executive or county mayor of the Member to be the Member's official representative for the purposes of the Pool. An alternate representative may exercise all the powers of a representative during a Member meeting, in the absence of the representative.



- (c) Allow the Pool, its ~~Director~~ Chief Executive Officer, agents, contractors, employees and officers reasonable access to all facilities and records of the Member as required for the administration of the Pool and implementation of the Agreement.
- (d) Cooperate fully with the Pool's attorneys, its ~~Director~~ Chief Executive Officer, and any other agent, contractor, employee or officer of the Pool in activities relating to the purposes and powers of the Pool.
- (e) Provide information requested by the Pool, its ~~Director~~ Chief Executive Officer, and any other agent, contractor, employee or officer of the Pool, as reasonably required for the administration of the Pool.
- (f) Allow the Pool, and attorneys and others designated by the Pool, to represent the Member in the investigation, settlement and litigation of any claim within the scope of loss protection furnished by or through the Pool and also to deny coverage for any claims settled by a Member or for any monies paid by a Member toward claims without the prior written approval of the Pool.
- (g) Follow the claims, loss reduction and prevention, and risk management policies and procedures established by the Board.
- (h) Report to the Pool, in the form and within the time required by the Board, all incidents or occurrences that could reasonably be expected to result in a covered claim to the Pool under the coverage agreement issued to the Member.
- (i) Report to the Pool, in the form and within the time required by the Board, the addition of new programs, facilities and exposures or the significant reduction or expansion of existing programs and facilities covered under the coverage agreement issued to the Member.

## **ARTICLE 5. Board of Trustees.**

5.1 The Board shall be comprised of ~~twelve~~ thirteen persons in the following manner:

- (a) One Trustee, appointed by the governing body of Davis County, representing Davis County;
- (b) One Trustee, appointed by the governing body of Utah County, representing Utah County;
- (c) One Trustee, appointed by the governing body of Washington County, representing Washington County;



- (d) One Trustee, appointed by the governing body of Weber County, representing Weber County;
- (e) Two Trustees, elected by member counties of the third class, representing Counties of the third class;
- (f) One Trustee, elected by member counties of the fourth class, representing counties of the fourth class;
- (g) One Trustee, elected by member counties of the fifth and sixth class, representing Counties of the fifth and sixth class;
- (h) Two Trustees, elected by all member counties, representing all counties at large;
- (i) One Trustee, appointed by the Board, shall be a sheriff of a member county, who serves as the Chair of the Law Enforcement Committee, ~~appointed by the Board~~;
- (j) One Trustee, appointed by the Board, shall be the Chair of the Litigation Management Committee ~~appointed by the Board~~ and;
- (k) One Trustee, appointed by the Board, shall be the Chair of the Personnel Committee ~~appointed by the Board~~.

Trustees serving pursuant to subsections ~~(de)~~-(gh) shall be Designated as "Elected Trustees" and serve two-year overlapping terms. Trustees serving pursuant to subsections (a)-(ed) shall serve for two-year terms. Trustees serving pursuant to subsections ~~(hi)~~-(jk) shall serve for two-year terms and may be reappointed to subsequent terms by the Board. A Trustee serving pursuant to subsection (i) shall serve a two-year term ending in odd numbered years. Trustees serving pursuant to subsections (j) and (k) shall serve two-year terms ending in even numbered years.

- 5.2 No person convicted of a felony may serve as a Trustee.
- 5.3 Each Trustee shall be an elected or appointed officer or an employee of a Member.
- 5.4 Election of Trustees shall take place at the annual meeting of the Members. Elected Trustees shall assume office at the first Board meeting of the calendar year following their election.
- 5.5 The Board of Trustees shall elect three Trustees to serve on a Nominating Committee at the first Board meeting of each calendar year. The Nominating Committee shall solicit nominations for available elected Trustee positions. Any elected official of a Member or any Trustee may nominate eligible persons to run for available elected Trustee positions. Nominations will be received at the Pool office no later than 30 days prior to the meeting at which the election is scheduled. The Pool will verify that each nominee is willing to



serve if elected before forwarding the nominations to the Nominating Committee. The Nominating Committee shall review the nominations and select by a majority vote not more than three names to be placed on the ballot for each available elected Trustee position. A person may not be nominated and placed on the ballot for more than one available elected Trustee position. In the event that no nominations are received for one or more available elected Trustee positions, the President of the Board of Trustees can solicit nominations from the floor on the following conditions:

- (a) The nominee is eligible to serve as a Trustee under Articles 5.2 and 5.3; and
- (b) The nominee, if present, expresses a willingness to serve, or, if not present, the Pool has verified that the nominee has expressed in writing a willingness to serve.

5.6 In the event of a tie vote for elected Trustee positions:

- (a) If two nominees are running for the same elected Trustee position, the President of the Board of Trustees may conduct a coin toss when the votes are tied.
- (b) If three nominees are running for the same elected Trustee position and two of the three nominees have an equal and highest number of votes, the President of the Board of Trustees may call for a revote between the two nominees receiving the equal number of votes.

5.7 A vacancy shall occur on the Board when a Trustee:

- (a) Submits a written resignation to the Board.
- (b) Dies.
- (c) Is no longer an elected or appointed officer or employee of a Member.
- (d) Fails to attend three consecutive regular meetings of the Board without the Board having excused such absences except that such additional absence or absences shall be excused for temporary mental or physical disability or illness.
- (e) Is removed by the Members pursuant to Article 4.3 of the Bylaws.
- (f) Is convicted of a felony.

5.8 Any vacancy in the position of an elected Trustee may be filled by majority vote of the remaining Trustees until the next annual meeting of the Members, at which time the Members shall elect a person to fill the vacancy for the unexpired term.

5.9 Any vacancy in the position of an appointed Trustee under Article 5.1(a)-(c) shall be filled by appointment from the respective county and the Trustee shall serve for the remainder of the unexpired term. If the county is no longer a member, the Trustee position shall



revert to an at large position and be filled by a majority vote of the remaining Trustees until the next annual meeting of the Members, at which time the Members shall elect a person to fill the vacancy.

- 5.10 Any vacancy in the position of an appointed Trustee under Article 5.1(h)-(j) shall be filled by majority vote of the remaining Trustees and shall fill the unexpired term of the Trustee.
- 5.11 To the extent permitted by law, Trustees may be reimbursed for expenses incurred in the performance of their duties, as authorized by the Board.
- 5.12 Each Trustee must be a resident of the State of Utah.
- 5.13 Subject to the limits described in Article 3.6 of the Bylaws, the powers of the Board shall include, but not be limited to, the powers to:
  - (a) Delegate, by resolution adopted at a meeting of the Trustees and specifically defined in the written minutes of the Trustees' meetings, authority for specific functions to the ~~Director~~ Chief Executive Officer, but only to the extent permitted by the laws of the State of Utah and these Bylaws.
  - (b) Establish premiums, pursuant to guidelines adopted by the Board from time to time.
  - (c) Serve as the policyholder of any group policies or plans.
  - (d) Determine the methods of claim administration and payment; provide for claim experience for the Members collectively or separately; and establish claim procedures and conditions to be met prior to the payment or defense of a claim.
  - (e) Jointly self-insure or obtain reinsurance or excess insurance (specific or aggregate), or any combination thereof, or otherwise provide for the funding of coverages and adopt and adjust coverages provided by or through the Pool, as the Board deems appropriate.
  - (f) Establish employment policies for the employees of the Pool including but not limited to policies, salaries and benefits.
  - (g) Provide for the administration of the moneys of the Pool, for the manner of payments to the Pool, and for payment of all expenses of the Pool; establish standards for the accountability of all receipts and disbursements of the Pool; and establish procedures for safekeeping, handling, and investing such monies received or paid.
  - (h) Acquire, lease, hold, and dispose of real and personal property.
  - (i) Exercise the full power and authority of any Member of the Pool when requested to do so by the Member's governing body.



- (j) Provide for necessary activities, and enter into contracts as necessary or appropriate to accomplish the purposes of the Pool.
- (k) Do any act permitted by law and not in conflict with these Bylaws, the Agreement, or the Articles of Incorporation of the Pool.
- (l) Provide for an independent audit of claim handling procedures, payments, and overall operations of the Pool, at such times as the Board may determine.
- (m) Establish loss reduction, prevention and risk management policies, procedures, and requirements for Members of the Pool and provide risk management services and educational and other programs related to risk management.
- (n) Create various Committees including, but not limited to, a Law Enforcement Committee, a Personnel Committee, and a Litigation Management Committee. The members of such Committees, including the Chair, shall be appointed by the Board.
- ~~(e) — Appoint committees from time to time, as the Board considers appropriate.~~
- (o) Approve a list of attorneys or law firms authorized to represent Members in claims covered by or through the Pool.
- (p) Obtain the services of agents, attorneys, brokers, consultants, employees, and service providers as necessary or appropriate for the operation of the Pool.
- (q) Exercise all powers of the Pool except those powers reserved to the Members, and all powers necessary and proper for the operation of the Pool and implementation of the Pool, subject to the limits of the Agreement, the Articles of Incorporation, Bylaws, and the Code. The Board is responsible for all operations of the Pool.

5.14 The Board shall:

- (o) Perform all duties required by Utah law, the Agreement, the Articles, and these Bylaws.
- (p) Obtain and provide to Members at least annually an audit of the finances of the Pool performed by an independent certified public accountant.
- (q) Provide for at least quarterly financial statements to account for income, expenses, assets and liabilities of the Pool.
- (r) Provide at least annually for an actuarial review of the Pool.
- (s) Adopt a budget annually and report the budget to the Members.



- (t) Require that fidelity bonds or appropriate insurance, in an amount to be determined by the Board, be in effect for employees of the Pool, and every other person having access to moneys of the Pool.
- (u) Appoint an Audit Committee to review the financial statements, actuarial analysis, make recommendations to the Board on the financial affairs of the Pool, and make an annual report to the members regarding the financial affairs of the Pool.

## **ARTICLE 6. Officers, Meetings, Procedures.**

- 6.1 The principal offices of the Board shall be: president, vice-president and secretary-treasurer. The principal offices shall be held by three separate natural persons. Officers shall be elected by and from among the Trustees, at the first Board meeting following each annual meeting of the Members. The Board shall establish the powers and duties of each officer, consistent with these Bylaws, the Agreement and the Articles of Incorporation of the Pool. All Members of the Board shall have full voting rights. The president shall preside over meetings of the Board and of the Members and shall perform such other duties as may be prescribed from time to time by the Board and the Members. The vice-president shall exercise the powers of the president in the absence of the president, and the secretary-treasurer shall exercise the powers of the president in the absence of the president and vice-president.
- 6.2 The Board shall fix the date, time and place of regular meetings that are scheduled in advance over the course of a year. Meetings may be called by the president, or by any five Members of the Board, by written notice mailed at least ten days in advance to all Trustees or by unanimously executed waiver of notice. Emergency meetings of the Board may be held to consider matters of an emergency or urgent nature, after an attempt has been made to notify all Board Members and a majority votes in the affirmative to hold the meeting. Notice, including public notice, of all meetings and the agenda shall comply with applicable laws of the State of Utah.
- 6.3 Seven Trustees shall constitute a quorum to do business. All actions of the Board shall require a quorum and a majority vote of the Trustees present, except where a different vote is required by these Bylaws.
- 6.4 The Board shall adopt such procedures as it deems necessary or desirable for the conduct of its business.
- 6.5 Any or all Trustees may participate in any meeting of the Board by means of a conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other at the same time. Participation by such means shall constitute presence at the meeting.
- 6.6 The Board shall establish its own rules of order that are not in conflict with the laws of the



State of Utah, the Articles, and other specific provisions of these Bylaws.

#### **ARTICLE 7. Financing.**

- 7.1 All monies of the Pool, and earnings thereon, shall be held in the name of and for the use and benefit of the Pool.
- 7.2 The Board shall establish Member premiums pursuant to guidelines established by the Board from time to time.
- 7.3 Any refund of surplus moneys shall be consistent with policies adopted by the Board.
- 7.4 Investments of monies of the Pool shall be limited to those investments permitted by the State Money Management Act, Utah Code Ann. §51-7-1 et seq. (2002), as amended.

#### **ARTICLE 8. Withdrawal from the Pool.**

- 8.1 Any Member may withdraw from the Pool, at the end of a coverage period after giving the Board timely written notice of such withdrawal, pursuant to a resolution of the Member's governing body. Timely written notice of such withdrawal must be provided to the Board no later than 120 days day prior to the date the Member's coverage would otherwise renew. The Board shall consider a timely written notice of withdrawal to be a final decision unless the notice is withdrawn by the Member 90 days prior to the date the Member's coverage would otherwise renew. The Board may, by a three-fourths vote and at its sole discretion, agree to permit an earlier date of withdrawal.
- 8.2 A withdrawn Member shall lose all voting rights upon the effective date of withdrawal. Any claim of title or interest to any asset of the Pool, and any continuing obligation of the Pool to the Member or of the Member to the Pool, after the effective date of the Member's withdrawal, shall be consistent with these Bylaws, the Agreement and any policy adopted by the Board, and the laws of the State of Utah.

#### **ARTICLE 9. Termination of Membership.**

- 9.1 A Member that fails to pay a premium due the Pool shall have its membership in the Pool terminated at 12:00 a.m. MST on the sixtieth day following the due date, unless time for payment is extended by the Board and payment is made within any extended period. A notice of failure to pay a premium due the Pool shall be mailed to the Member at least 30 days prior to the date of termination. A termination of membership under this paragraph shall not be subject to the provisions of Article 9.2.
- 9.2 Any membership in the Pool may be terminated by the Board or by a three-fourths vote of the Members for failure of the Member to carry out any other obligation of the Member, subject to the following:



- (a) The Member shall receive written notice from the Board of the alleged failure and shall be given not less than 30 days in which to correct the alleged failure, along with notice that termination of membership could result if the failure is not corrected.
- (b) The Member may request a hearing before the Members at a membership meeting prior to the termination. The request shall be made in writing to the Board at least ten business days before the end of the period given by the Board to correct the alleged failure. The Board shall present the case for termination of membership at the hearing and the affected Member may present its case. The affected Member shall not be counted in determining the number of votes required, nor shall the representative of such Member be entitled to vote on the termination.
- (c) If a request is not received pursuant to Article 9.2(b) of the Bylaws and if the failure is not corrected within the time required by the Board's notice, or any extension of such time as the Board may grant, the Board may terminate the membership. The Member may request a hearing before the Board on the proposed termination in lieu of a hearing before the Members. The request shall be made in writing and received by the Board at least five days before the end of the period given by the Board to correct the alleged failure, and shall be granted if so made.
- (d) The Board shall provide the Member at least ten days prior written notice of the time and place of any requested hearing, and the proposed termination of membership may not take effect until such time after the conclusion of any hearing as the Board or Members, as applicable, may set.

9.3 Termination of membership shall be in addition to any other remedy that may exist.

9.4 A Member shall lose all voting rights upon termination of its membership. The terminating Member shall lose any claim of title or interest to any asset of the Pool, and any continuing obligation of the Pool to the Member or of the Member to the Pool, after the termination of membership, shall end.

#### **ARTICLE 10. Dissolution and Disposition of Property.**

10.1 The Pool may be dissolved by the Members as provided in Article 4 and in the Agreement. In the event of voluntary dissolution of the Pool, the assets of the Pool not used or needed for the purposes of the Pool, including its contractual obligations, shall be distributed, as determined by the Board, only to Utah counties, which are Members of the Pool at the time of dissolution.

10.2 Upon partial or complete dissolution of the Pool by the Members in accordance with Article 4 of the Bylaws and the Agreement, the Trustees shall determine, consistent with these Bylaws, all other matters relating to the disposition of property and dissolution of



the Pool by a two-thirds vote of all Trustees.

- 10.3 The Board shall serve as trustees for the disposition of property or funds, payment of obligations, dissolution and winding up of the affairs of the Pool.

#### **ARTICLE 11. Liability of Board, Officers and Employees.**

- 11.1 It is the intent of the Pool to provide the broadest possible immunity from personal liability to each Trustee, officer, and employee of the Pool allowed by applicable laws of the State of Utah including, but not limited to, the Governmental Immunity Act, the Corporations Code and the Insurance Code, as amended from time to time. The Pool shall defend and indemnify the Trustees, officers and employees of the Pool against any and all expense, including attorney fees and liability expenses, sustained by them or any of them in connection with any suit or suits which may be brought against them involving or pertaining to any of their acts or duties to the fullest extent allowed by the laws of the State of Utah. The Pool shall purchase liability or other appropriate insurance providing coverage for the Trustees, officers and employees of the Pool. Nothing herein shall be deemed to prevent compromises of any litigation where the compromise is deemed advisable in order to prevent greater expense or cost in the defense or prosecution of such litigation.

#### **ARTICLE 12. Arbitration.**

- 12.1 To the extent permitted by any applicable reinsurance or excess insurance, if the Board or its authorized representative and a Member disagree on whether a loss is covered through the Pool or on the amount of a covered loss, the Board or its authorized representative or the Member may request that the disagreement be submitted to binding arbitration as follows:
- (a) Unless otherwise agreed by the Board or its authorized representative and the Member, three persons shall be selected for the arbitration panel, one by the Board or its authorized representative, one by the Member, and one by the two so selected to act as umpire to decide the items upon which the other two disagree. If the two so selected fail for fifteen days to agree upon the umpire, the dispute of coverage shall be submitted to the American Arbitration Association for arbitration pursuant to their standard rules and regulations.
  - (b) The decision of the panel shall be binding on the Board or its authorized representative and the Member.
  - (c) The Pool shall pay the fees and expenses of the panelist selected by the Board or its authorized representative, the Member shall pay the fees and expenses of the panelist selected by it, and the fees and expenses of the umpire shall be shared equally by the Pool and the Member.



### **ARTICLE 13. General Provisions.**

- 13.1 Except as provided in these Bylaws and to the extent of the financial contributions to the Pool agreed to herein or such additional obligations as may come about through amendments to these Bylaws, no Member agrees or contracts herein to be held responsible for any claims made against any other Member. The contracting parties intend in the creation of the Pool to establish an organization to operate only within the scope herein set out and have not herein created as between Member and Member any relationship of partnership, surety, indemnification, or responsibility for the debts of or claims against any other Member.
- 13.2 The laws of Utah shall govern the interpretation and performance of these Bylaws.
- 13.3 In the event that any portion of these Bylaws is held invalid or unenforceable, such invalidity or unenforceability shall not affect other portions, and these Bylaws are expressly declared to be severable.
- 13.4 These Bylaws do not relieve any Member of any obligation or responsibility imposed upon it by law except to the extent that actual and timely performance thereof by the Pool satisfies such obligation or responsibility.
- 13.5 All moneys received by the Pool are public funds, including earned interest, derived from its Members, which are counties within the State of Utah.
- 13.6 It is the intention of the Members that the Pool and any income of the Pool not be subject to taxation, and the Members shall cooperate in such respects, including amending these Bylaws, as reasonably necessary to establish and maintain the non-taxable status of the Pool.
- 13.7 Except as permitted in these Bylaws, and amendments hereto, neither the Board nor any other person or entity is authorized to incur liabilities or obligations or enter into contracts on behalf of the Members.
- 13.8 In the event of the payment of any loss by the Pool under this Agreement, the Pool shall be subrogated to the extent of such payments to all the rights of the Member against any other person or other entity legally responsible for damages for such loss, and in such event the Member agrees to render all reasonable assistance to effect recovery.



Dated this \_\_\_\_\_ day of \_\_\_\_\_, 200\_\_\_\_.

By: \_\_\_\_\_

Print Name: \_\_\_\_\_ Dan R. McConkie \_\_\_\_\_

Title: \_\_\_\_\_ President \_\_\_\_\_

**ATTEST:**

By: \_\_\_\_\_

Print Name: \_\_\_\_\_ Gene E. Roundy \_\_\_\_\_

Title: \_\_\_\_\_ Secretary/Treasurer \_\_\_\_\_

Date: \_\_\_\_\_





Utah Counties Insurance Pool  
*Serving Counties Since 1992*

## BOARD OF TRUSTEES MEETING

### MINUTES

June 23, 2005, 10:00 a.m.  
UCIP Building, Salt Lake City, UT

#### BOARD MEMBERS PRESENT

Dan McConkie, *President*, Davis County Commissioner  
Lynn Lemon, *Vice President*, Cache County Executive  
Ken Bischoff, Weber County Commissioner  
Steve Baker, Davis County Personnel Director  
Kay Blackwell, Piute County Commissioner  
Jerry Grover, Utah County Commissioner  
Ed Phillips, Millard County Sheriff  
Kent Sundberg, Utah County Deputy Attorney  
Steve Wall, Sevier County Clerk-Auditor

#### BOARD MEMBERS ABSENT

Jim Eardley, Washington County Commissioner  
Ira Hatch, Emery County Commissioner  
Gene Roundy, *Secretary-Treasurer*, Iron County Commissioner

#### MEMBERS PRESENT

Steve White, Utah County Commissioner

#### OTHERS PRESENT

Lester Nixon, Chief Executive Officer  
Sonya White, Manager of Administration  
Mark Brady, Loss Control Manager  
Korby Siggard, Claims Manager  
Brody Parker, Safety Specialist  
Ann Thomas, Marsh Risk & Insurance Services  
Lawrence Wiscombe, Marsh Risk & Insurance Services  
Steve Sterling, Marsh Risk & Insurance Services

#### Call to Order

Dan McConkie called the meeting of the Utah Counties Insurance Pool Board of Trustees to order at 10:00 a.m. on June 23, 2005. Dan welcomed those in attendance.

#### Review of Board Members Absent

Jim Eardley requested to be excused from this meeting due to medical reasons. Ira Hatch requested to be excused from this meeting due to a meeting conflict. Gene Roundy is out of state and requested to be excused from this meeting. Steve Baker made a motion to excuse Jim Eardley, Ira Hatch and Gene Roundy from this meeting. Ed Phillips seconded the motion, which passed unanimously.

#### Approval of June 3 Minutes

The minutes of the Board of Trustees meeting held June 3, 2005 were previously sent to the Board Members for review. Steve Wall requested that under item **Approve Code of Ethics Policy**, page two, the first sentence read: *Lester Nixon explained that as part of the 2004 audit, Larson and Company recommended that UCIP adopt a Code of Ethics Policy (see attachment #6) and that each UCIP employee annually (by July 15) affirm reading and agreeing to the policy.* Steve Wall made a motion to approve the June 3 meeting minutes as corrected. Ed Phillips seconded the motion, which passed unanimously.



## **Benefits Pool Feasibility Study**

Marsh Risk and Insurance Services representative Ann Thomas, along with Steve Sterling and Lawrence Wiscombe (available to answer questions), reported the details of the feasibility study conducted at the request of the Board of Trustees for a Benefits Pool to offer to their members (see attachment #1). Ann presented the Peer Group Observations (survey results). The information gathered from the counties resulted in: a potential pool size of 3750 employees; two-thirds surveyed had a high interest level and one-third had a mid-interest level; the driving interest factor was cost containment and more options for employees (choice); 63% of respondents' current plan design is a Preferred Provider Organization (PPO); and one-half are self-funded. With these results the Board's Benefits Committee agreed with the recommendation to go forward with the feasibility study. Once the survey results were compiled, the data gathered from the current vendors was compiled for the initial financial analysis and plan design comparisons.

The factors that will make up a successful pool is network access (goal is 100% access), plan design flexibility, evaluation of risk and long-term viability. Ann continued by reviewing the trends in healthcare: double digit increases continue; cost shifting such as Health Savings Accounts (HSA) and consumer driven plans (employees now pay more of the costs); and an increase in the concept of pooling. The results of the feasibility analysis reveal a foundation on which to form a Health Insurance Benefits Pool for members of UCIP. The key findings were: 1) consensus on main objectives of a benefits pool; 2) Over one-half of the counties have the same plan design (while varied the plan designs offered no surprises); 3) viable network options; 4) potential for substantial claim savings through control and plan design options (short term costs may be offset by long term savings); and 5) design and participation will impact financial success. A pool only makes sense if the plan design makes sense. Marsh's plan design analysis included the historical options, carriers and networks currently offered/used by the counties (a comparison of current designs). UCIP's goal should be 100% access to providers, no matter the employee's location. Every county offers a PPO plan that offers out of network benefits. This is not the most effective way to control costs. The comparison of current designs (page 17) is based on individual, not family, costs. The perception of the employee is that benefits will be taken away if the employee changes to a new pool. The size of the pool dictates the possible options for possible future designs.

To be viable, the pool size should be 2000-4000 employees. The pool would offer up to three benefit plan options for counties to select: 1) Health Maintenance Organization (HMO) - \$0 deductible, no non-network benefit; 2) PPO - low-mid deductible (\$250-\$300), non-network benefit; and 3) High Deductible Health Plan (HDHP) - High deductible (\$1100+), HSA compliant (Garfield and Kane Counties have a HDHP). An \$1100 deductible was estimated for the next two years inflation.

The access/network analysis was conducted to make sure there are viable markets for the Pool. Viable markets are available offering up to 100% access. Detailed analysis occurs in phase two. The financial analysis was based on the experience of both fully insured and self-funded counties. The assumption was that the Pool would not pay any "run-out" (claims average a lag time of three to six months) so Incurred But Not Reported (IBNR) claims are not included in the financial analysis. Lester Nixon noted that self-insured counties should have a six month payout reserve on their books under Government Accounting Standards Board (GASB) regulations.

Ann continued that potential fixed costs were projected because determinations such as administrator, plan design and enrollment will be decided in phase two. The larger the pool the better stop-loss point and lower carrier costs. Third party administrators will run a statewide pool where service is not based on size and/or geography. The goal is to find a balance (break even point) of the pool. Page 23, Medical Cost Comparison, charted the impact of enrollment and plan design on estimated claims. Current medical plans show a 2004 annual cost of \$26,650,000 for 21 employers (3,750 employees). Using 2004 experience as the base year, the long term impact of a benefits pool increases approximately five percent during the next five years. Counties will be better off in five years because the pool is a different concept than current carriers that raise premiums if a county has a bad claim year and do not decrease premiums for a good claim year.

Pools receive rebates from pharmacy managers, approximately \$300,000 a year for an anticipated pool the size of UCIP's. These monies, as well as future surplus, can be used to offset costs and future increases to the members. Self-insurers can design and customize plans to fit the needs of their members and have the ability to capture data to control future costs (each member will have access to their utilization). A benefits pool is a decision that requires a long term commitment. It will take three to five years to get the pool up and running.



Lester explained that Marsh was hired to determine whether or not a benefits pool was feasible (phase one). The study concludes that it is feasible. Phase two will allow the Board to finalize plan design, access/network and calculate premiums to market the benefits pool to the counties. At least 2000 employees will need to commit for three years for the pool to be viable. The target date for inception is January 1, 2006. The benefits pool will not be made available for members to reduce health insurance costs, but to control costs. Kay Blackwell made a motion to move on to phase two. Lynn Lemon seconded the motion, which was opened for discussion. Lawrence reported that phase one cost \$40,000. Phase two will cost between \$60,000 and \$90,000 depending on the number of vendors the Board wants to compare and how thorough the market is negotiated. Lester explained that the benefits pool will borrow these monies from the multiline pool. The Board should proceed based on the membership's surveys. If a member decides not to participate, they won't be charged for the study. The cost of the study will be absorbed in operating expenses, if the pool does not receive adequate enrollment. Steve Baker voiced that the cost is too high in the event the Board cannot meet the goals anticipated by the members. Kay amended his motion to adjourn for lunch allowing the Board Members time to ponder the initial motion. Lynn seconded the amended motion, which passed unanimously.

The Board reconvened and Dan McConkie asked if any Board Members had any further questions for Ann Thomas, Lawrence Wiscombe and/or Steve Sterling of Marsh Risk & Insurance Services. There were no further questions so Ann, Lawrence and Steve were thanked and left the meeting. The general consensus of the Board was that the cost of phase two was too high for a pool the size of Utah. Lynn reminded the Board that one of its goals is to explore employee benefits coverage for members. Kay Blackwell said that the smaller counties really need help. Kent Sundberg made a motion to modify the motion to move to phase two and authorize Lester Nixon to negotiate an amount up to \$60,000 for a full-approach to the markets by Marsh Risk and Insurance Services. Ed Phillips seconded the motion, which carried seven/two; Steve Baker and Ken Bischoff opposing.

#### **Chief Executive Officer's Report**

Lester Nixon provided the Board with a list of upcoming training opportunities (see attachment #2). The Association of Governmental Risk Pools (AGRIP) Joint Conference with the California Association of Joint Powers Authorities (CAJPA) is scheduled for September 21-23, 2005 in Lake Tahoe but does conflict with the Utah State Association of County Commissions and Councils (USACCC) Meeting. The AGRIP Governance Conference is scheduled for November 14-16, 2005 in San Antonio. The AGRIP Spring Conference is scheduled for March 6-8, 2006 in Tampa. Risk and Insurance Management Society (RIMS) Conference is scheduled for April 23-27, 2006 in Honolulu. The Public Risk Management Association (PRIMA) Conference is scheduled for June 12-14, 2006 in Las Vegas. The AGRIP Governance Conference is scheduled for October 9-11, 2006 in New York City. The RIMS Conference has a larger attendance, more days of training, more technical and is more expensive than PRIMA. Board policy allows for Trustees to attend two of the three (AGRIP and/or PRIMA) conferences per year. The policy would need to be changed to include RIMS.

Lester provided the Board with a copy of the June 6 issue of Business Insurance which Lester was interviewed to discuss, in part, the Board of Trustees Retreat (see attachment #3). The article related to trends identified by Pools through environmental scanning.

Lester reported that the Utah Counties Insurance Pool sponsored a dinner at the Treasurer's Summer Workshop on June 9.

Lester made a presentation to Davis County Leadership on June 15 regarding *A Brief Primer on UCIP*.

Lester reported that he, Steve Baker, Mark Brady, Dan McConkie and Kent Sundberg attended the June 6-8 PRIMA Conference in Milwaukee. UCIP Trustees and staff had a chance to meet with Dave Brooks of the Ohio Pool to discuss their Sheriff's Commission on Accreditation for Law Enforcement Agencies (CALEA) program. Ohio offers both a full accreditation program and a recognition program. Ohio started a benefits pool January 2004 and has not had as much participation (11 out of 50 counties) as hoped but it is a viable pool. Lester also had an opportunity to meet with a catastrophe modeler who will be providing a proposal to the pool to conduct earthquake modeling. The modeling would assist in determining earthquake limits for the 2006 policy.

Lester reviewed the workers' compensation claims summary with the Board (see attachment #4). The summary includes all claims to date and claims development through the first five months of 2005. The total incurred loss ratio for the first five months of 2005 is at 12.8%, which is very favorable. Each claims detail will be provided to the Board during closed session.



Lester reviewed the multiline claims summary with the Board (see attachment #5). The summary includes all claims to date and claims development through the first five months of 2005. The total incurred loss ratio for the first five months of 2005 is at 28.16%, which is very good considering two of the largest property losses in the history of the Pool were experienced this year. Each claims detail will be provided to the Board during closed session.

#### Approve Joint Policy County Representation To UCIP

Lester Nixon reported that, in an effort to answer questions as relates to the designation of representatives to act on behalf of the county in Pool matters, a joint policy has been drafted for the Board's review and approval (see attachment #6). The Pool member has the responsibility to make appointments for the positions of: Official Representative, Risk Manager, Safety Officer, Insurance Coordinator, and Workers' Compensation Coordinator. The member may appoint one individual to all or any combination of employees in order to fill each position. Lynn Lemon made a motion to adopt Joint Policy County Representation to UCIP as presented and written. Steve Wall seconded the motion, which passed unanimously.

#### Approve Revised Planning Document

As a result of the Board's June Retreat, Lester Nixon reviewed the changes to the UCIP Planning Document with the Board (see attachment #7). Ken Bischoff made a motion to approve the amended UCIP Planning Document as presented. Kay Blackwell seconded the motion, which passed unanimously.

#### Ratification and Approval of Payments and Credit Card Transactions

Lynn Lemon reviewed the payments made, payments to be made (see attachment #8) and credit card transactions with the Board. Lynn Lemon made a motion to approve the payments made, payments to be made and credit card transactions. Steve Wall seconded the motion, which passed unanimously.

#### Other Business

Sonya White provided the Board with five location options for their 2006 retreat (see attachment #9). Kay Blackwell made a motion for Sonya White to schedule the Lodge at Stillwater (Wasatch County) for the Board's June 1-2, 2006 Retreat. Kent Sundberg seconded the motion, which passed eight/one, Jerry Grover opposing.

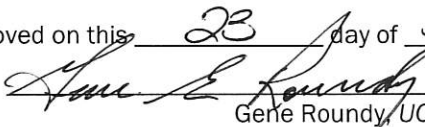
Kay Blackwell questioned whether or not closed meetings are to be recorded. Mark Brady referred Kay to section 52-4-4 of the Utah Code.

Dan McConkie reported that the Utah Association of Counties (UAC) Board of Directors met in Provo on June 17 and discussed the *Items to Address Concerning the Building Agreement* outlined by the UCIP Building Committee. Since Dan was asked to excuse himself from UAC's discussion, the UCIP Board asked Brent Gardner to join this meeting and report on UAC's decision. Brent reported that the UAC Board voted to proceed with the concept of a condominium agreement. A conference call will be scheduled for July so that UAC can review the details, terms and internally decide how to proceed. Dan said that he would like the officers of both Boards and the Building Committee members to meet (possibly July 11 or 12). Brent will coordinate the meeting and contact UCIP for the date and time.

Kay Blackwell made a motion to set the date and time for a closed meeting to discuss pending or reasonably imminent litigation for June 23, 2005 at 1:53 p.m. Ken Bischoff seconded the motion, which passed unanimously. Lynn Lemon made a motion to conclude the closed meeting to discuss pending or reasonably imminent litigation on June 23, 2005 at 2:15 p.m. Ken Bischoff seconded the motion, which passed unanimously. The Board agreed that claim detail for claims over \$25,000 will be provided to the Board at each meeting starting in August.

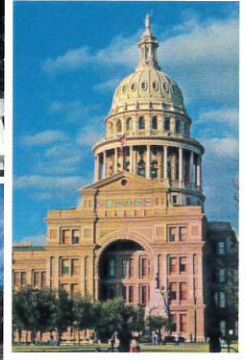
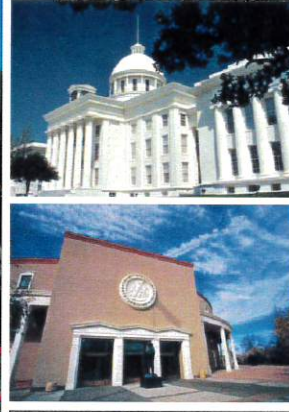
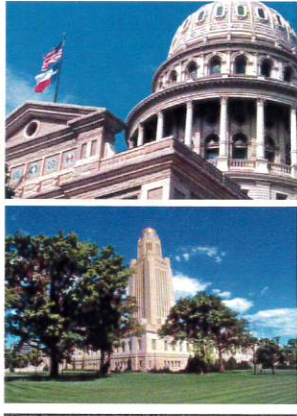
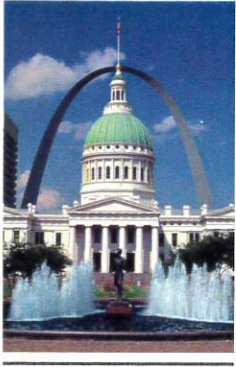
The next meeting of the Board of Trustees will be held on August 23 at 7:00 p.m. in Cedar City,

Lynn Lemon made a motion to adjourn this meeting of the Board of Trustees. Ken Bischoff seconded the motion, which passed unanimously.

Approved on this 23 day of August 2005  
  
Gene Roundy, UCIP Secretary-Treasurer



COUNTY REINSURANCE, LIMITED  
ANNUAL REPORT 2004



## ABOUT COUNTY REINSURANCE, LIMITED

County Reinsurance, Limited (CRL) is a member-owned reinsurance company. The company was formed in 1997 by county associations that operated their own self-insured pools. The National Association of Counties (NACo) and state association executives played a critical role in the formation of the company.

CRL provides property, liability, and workers' compensation reinsurance to its members. CRL's status as a reinsurer means that the company does not provide direct coverage or state approved "admitted" policies. In several instances CRL enters into reinsurance agreements with a state-approved company to meet regulatory requirements for an "admitted" company. In those instances, CRL Members receive a policy from an insurance company admitted to do business in their particular state, and CRL reinsures that state-approved insurance company.

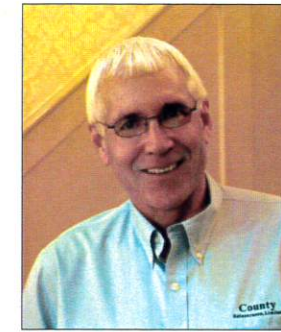
CRL is organized as a captive insurance company in the state of Vermont. The company's legal structure as a mutual insurance company means that the members of the company own the company. In addition, CRL is organized as a non-profit company, and is exempt from state and federal income taxes. All CRL Members are also organized as non-profit companies.

CRL maintains administrative offices in Clemmons, North Carolina. Questions about CRL may be directed to Philip E. Bell, Executive Director at (336) 766-3930.

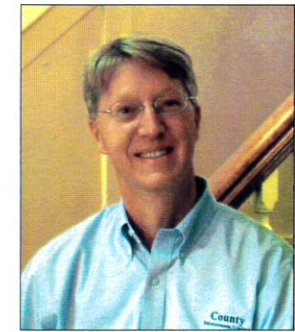
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## LETTER TO MEMBERS



RON LETHGO  
Chairman of the Board



PHILIP E. BELL  
Executive Director

### Dear Members:

We are pleased to present County Reinsurance, Limited's first Annual Report. 2004 was a promising year for the Company. County Reinsurance, Limited (CRL) continued to be an attractive option for our target market, member surplus increased by a healthy amount, gross and net premiums increased, the Company made several key improvements to operations, loss reserves stabilized, and new reinsurance partnerships were formed.

### Accomplishments in 2004 include:

- We welcomed the following new members:
  - ❑ Utah Counties Insurance Pool (Liability and Workers' Compensation Programs)
  - ❑ Local Government Workers' Compensation Fund (The Tennessee Counties' Workers' Compensation Program)
  - ❑ Nevada Public Agency Insurance Pool (The liability program sponsored by the Nevada Association of Counties and other local governments in Nevada)
- Gross premium increased from \$15,889,000 to \$18,159,000, a 14% increase. Net premium increased from \$11,411,000 to \$14,177,000, a 24% increase.
- Operating income improved from (\$363,000) to \$1,516,000. Net income increased from \$526,000 to \$3,787,000.
- Member equity for the company increased from \$6,590,000 to \$12,289,000, an 86% increase. The return on equity for members was in excess of 45%.
- The Company leased office space, hired additional staff, implemented new claim auditing procedures, and started a comprehensive review of all member policy forms.
- Ultimate loss reserves from prior years stabilized, after going up for four consecutive years.
- The Company formed new partnerships with Safety National Casualty Corporation for the workers' compensation program and with C.V. Starr & Co. for the liability program.

The future looks promising for County Reinsurance, Limited and its members. We respectfully submit your company's annual report.

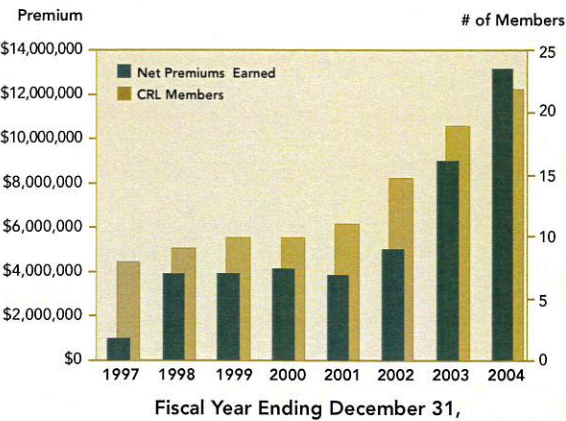
Ron Lethgo  
Chairman of the Board

Philip E. Bell  
Executive Director

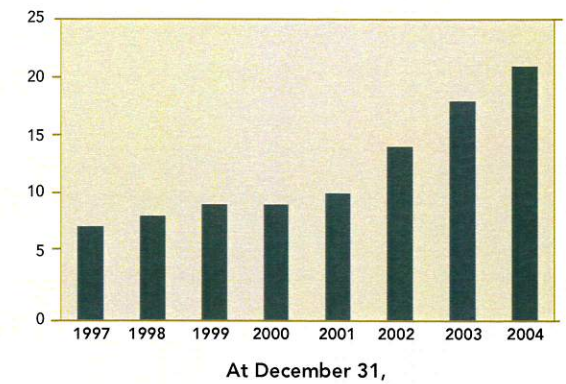


MANAGEMENT’S DISCUSSION AND ANALYSIS

CRL Member and Net Premium Growth (Chart 1)



CRL Members (Chart 2)



Underwriting Results

Growth in members and premiums continued in 2004. Gross premium increased from \$15,889,000 to \$18,159,000, a 14% increase. Net premium increased from \$11,411,000 to \$14,177,000, a 24% increase. The premium growth can be attributed to the addition of new members and adjustments to the company’s pricing model. (Chart 1)

After four consecutive years of underwriting losses, County Reinsurance, Limited (CRL) showed an underwriting gain (Operating Income) of \$1,516,000 for the fiscal year ending December 31, 2004. We attribute this improvement primarily to two operational changes.

First, CRL implemented a new pricing model on July 1, 2002. This pricing model change raised premium levels for all lines of business. The annual review and adjustment of the pricing model has given the company a formal process to make underwriting and pricing adjustments quickly. In addition, successful marketing efforts in the last three years have added new members to the company. These new members were added using the new pricing model, contributing to the improved results. (Chart 2)

Second, the company began taking a hard look at the claims management procedures used by its members. Although CRL members had been performing claim audits for several years, the audits were performed by a variety of firms selected by the individual members. The objectives of these audits were determined by the members. With the help and advice of outside experts, the company adopted a formal claims auditing procedure in the fall of 2003. The purpose of these audits is to assure quality claims management with a focus on key issues of importance to CRL. We take an especially close look at claim reserves, and here is where the benefits are greatest. We try to identify our large claims as early as possible. Claim reserve increases are initially painful, but in this business bad news must be recognized promptly in order to take

appropriate action. The claim audits serve as an early warning system for the company and allow pricing adjustments in a timely manner. (Chart 3)

Investment Results

CRL’s investment portfolio generated a total return of 5.67% for the year. Our equity portfolio produced a total return of 13.81%, which compared favorably with the S&P 500 Index return of 10.87%. Our bond portfolio produced a total return of 3.07%, which compared favorably with the Lehman Brothers Intermediate Government/Credit Index return of 3.04%.

After an extensive review that began in the fall of 2003, the Board of Directors approved the addition of alternative investment classes to the portfolio during the fiscal year. The genesis of this review and change was concern about rising interest rates, and the potential negative impact this would have on CRL’s large allocation to fixed income investments. The Board made it clear that they did not want to increase the volatility of the portfolio by simply shifting assets from fixed income investments to equities. The investments chosen were designed to diversify the overall portfolio without increasing volatility. The permissible

Eight Year Comparison of Results (Chart 3)

Years Ending December 31,	1997	1998	1999	2000	2001	2002	2003	2004
Net Premiums Earned	\$ 995,773	\$ 3,918,954	\$ 3,944,881	\$ 4,146,792	\$3,853,446	\$ 5,029,130	\$ 9,019,816	\$13,187,947
Operating Income	\$ (17,948)	\$ (87,302)	\$ 77,561	\$ (477,331)	\$ (938,214)	\$ (1,716,469)	\$ (362,852)	\$ 1,515,615
Net Investment Income	\$ 61,213	\$ 242,025	\$ 437,167	\$ 666,527	\$ 717,866	\$ (650,030)	\$ 888,492	\$ 2,271,794
Net Income	\$ 43,265	\$ 154,723	\$ 514,728	\$ 189,196	\$ (220,348)	\$ (2,366,499)	\$ 525,640	\$ 3,787,409
At December 31,	1997	1998	1999	2000	2001	2002	2003	2004
Total Assets	\$ 6,260,045	\$ 13,414,829	\$ 19,859,637	\$21,370,035	\$23,101,292	\$ 31,145,589	\$ 44,442,266	\$58,421,265
Total Liabilities	\$ 4,887,274	\$ 11,295,521	\$ 17,085,357	\$ 18,070,335	\$20,001,094	\$ 29,530,000	\$ 37,851,840	\$46,131,914
Total Member Equity	\$ 1,372,771	\$ 2,119,308	\$ 2,774,280	\$ 3,299,700	\$ 3,100,198	\$ 1,615,589	\$ 6,590,426	\$ 12,289,351
CRL Members	8	9	10	10	11	15	19	22



MANAGEMENT’S DISCUSSION AND ANALYSIS

Total Investment Return (Chart 4)

	Total	Equities	Bonds	Alternatives
1998	4.59%	0.36%	5.02%	N/A
1999	4.46%	16.10%	0.19%	N/A
2000	7.36%	-0.86%	10.10%	N/A
2001	4.92%	-11.46%	10.06%	N/A
2002	-3.22%	-27.62%	5.12%	N/A
2003	11.74%	36.43%	4.70%	N/A
2004	5.67%	13.81%	3.07%	4.14%

allocation to fixed income investments was reduced from 75% to 65%, and the permissible allocation to alternative investments was started at 10%. The permissible allocation to equities remained at 25% of the total portfolio. Alternative investments generated a total return of 4.14% for a partial year. (Chart 4)

Investment income adds a margin of safety to CRL’s operations because the company’s pricing approach does not assume any investment income. As CRL’s assets continue to grow, the cushion provided by investment income should also continue to grow, improving the company’s equity / surplus position, and allowing the payment of dividends at some point in the future. (Chart 5)

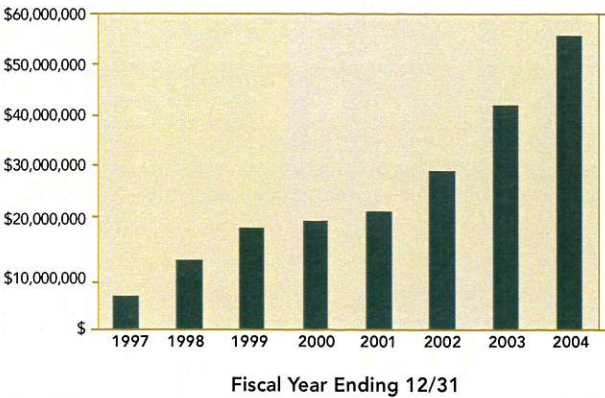
Net Income

CRL’s Net Income for the year ending 12/31/04 was \$3,787,000. This is a \$3,261,000 improvement over the results for the year ending 12/31/03. Net Income for the year included Operating Income of \$1,516,000 and Net Investment Income of \$2,271,000.

Contributed Capital

CRL receives contributed capital from two primary sources. First, the company requires a minimum ratio of capital to premium for each member. New members are required to contribute this capital upon joining the company, as a condition of membership. Current members may be required to contribute additional capital if a member’s capital drops below minimum ratios. This requirement helps maintain CRL’s surplus at acceptable levels, but also gives an ownership incentive to the members of the company. Second, the company began a Special Surplus Fund in 2002 to bolster the company’s surplus position. For the year ending 12/31/04 contributions to the Special Surplus Fund were set at 2% of net premium.

Total CRL Assets (Chart 5)



Members’ Equity

Members’ equity increased from \$6,590,000 to \$12,289,000. This improvement came from member contributions of \$1,678,000, Special Surplus Fund contributions of \$284,000, unrealized gains on investments of (\$50,000), and an increase in Retained Earnings of \$3,787,000. Annualized return on members’ equity was a healthy 45% for the year. (Chart 6)

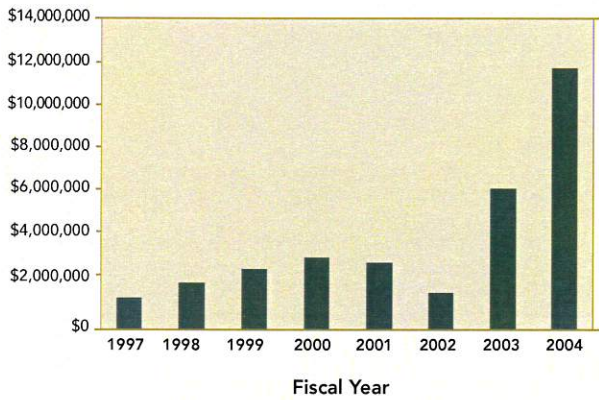
Reinsurance

County Reinsurance, Limited offers property, liability, and workers’ compensation reinsurance to its members. The company has partnerships with additional reinsurance companies to add stability and capacity to its overall program. The company retrocedes 100% of premiums and losses for property business to Discover Reinsurance Company, a subsidiary of St. Paul Travelers. Discover Reinsurance Company has an A.M. Best rating of A- (Excellent).

The Company currently retains liability business between a member’s self-insured retention and \$2,000,000. The company has a partnership with C.V. Starr & Co. for liability business, and retrocedes premiums and claims for losses above this amount to the Insurance Company of the State of Pennsylvania, a member of the American International Group, Inc. The Insurance Company of the State of Pennsylvania has an A.M. Best rating of A+ (Superior).

County Reinsurance, Limited has a partnership with Safety National Casualty Corporation (SNCC) for its workers’ compensation business. The company currently retains workers’ compensation business between the member’s self-insured retention and \$2,000,000. The company also has a one-time corridor deductible of \$750,000 excess of \$2,000,000. SNCC provides the remaining statutory limits for the program. In those states that require an admitted company, SNCC issues a direct policy to the member, and County Reinsurance, Limited reinsures SNCC for its portion of the premium and losses. SNCC has an A.M. Best rating of A (Excellent).

CRL Members’ Equity (Chart 6)



MEMBERS OF COUNTY REINSURANCE, LIMITED



CRL Members: Top Row, L to R: Rodney Miller, Ron Aycock, Doris Karloff, David Paulk, Jim Jean, Buddy Sharpless, John Sallade, Wayne Carlson, Joe Greathouse. Bottom Row, L to R: Bob Wormsley, Ron Lethgo, Lester Nixon, Craig Nelson. Not pictured: William Hardy, Brenda Pruitt.

- Arizona Counties Insurance Pool,  
represented by William Hardy
- Association County Commissioners of Georgia  
Interlocal Risk Management Agency,  
represented by David Paulk
- Association County Commissioners of Georgia  
Self-Insurance Workers' Compensation Fund,  
represented by David Paulk
- Association of County Commissions of Alabama  
Liability Self-Insurance Fund,  
represented by O. H. "Buddy" Sharpless
- Association of County Commissions of Alabama  
Workers' Compensation Self-Insurers Fund,  
represented by O. H. "Buddy" Sharpless
- Association of Arkansas Counties Workers'  
Compensation Trust,  
represented by Brenda Pruitt
- Kentucky Association of Counties Workers'  
Compensation Fund,  
represented by Joseph Greathouse
- Local Government Property and Casualty Fund,  
represented by Robert Wormsley

- Local Government Workers' Compensation Fund,  
represented by Robert Wormsley
- Missouri Association of Counties Self-Insured  
Workers' Compensation Fund,  
represented by Rodney Miller
- Nebraska Intergovernmental Risk Management  
Association,  
represented by Craig Nelson
- Nebraska Intergovernmental Risk Management  
Association II,  
represented by Craig Nelson
- New Mexico County Insurance Authority  
Workers' Compensation Pool,  
represented by Ron Lethgo
- New Mexico County Insurance Authority  
Multi-Line Pool,  
represented by Ron Lethgo
- New Mexico County Insurance Authority  
Law Enforcement Pool,  
represented by Ron Lethgo
- Nevada Public Agency Insurance Pool,  
represented by Wayne Carlson
- North Carolina Association of County  
Commissioners Joint Risk Management  
Agency Workers' Compensation Fund,  
represented by Ron Aycock
- North Carolina Association of Counties Liability and  
Property Insurance Pool Fund,  
represented by Ron Aycock
- Pennsylvania Counties Risk Pool,  
represented by John Sallade
- Texas Association of Counties Workers'  
Compensation Self-Insurance Fund,  
represented by Jim Jean
- Texas Association of Counties Risk Management  
Pool,  
represented by Jim Jean
- Utah Counties Insurance Pool,  
represented by Lester Nixon

DIRECTORS AND OFFICERS OF COUNTY REINSURANCE, LIMITED



Board of Directors: Top Row, L to R: Rodney Miller, John Sallade, David Paulk, Ron Aycock, Jim Jean, Buddy Sharpless, Andy Sargeant. Bottom Row, L to R: Craig Nelson, Ron Lethgo, Philip Bell.

- |  |   |
|--|---|
| <b>Mr. Ron Lethgo, Chairman</b><br>New Mexico County Insurance Authority   | <b>Mr. Ron Aycock</b><br>North Carolina Association of Counties                   |
| <b>Mr. Jim Jean, Vice Chairman</b><br>Texas Association of Counties  | <b>Mr. Craig Nelson</b><br>Nebraska Intergovernmental Risk Management Association |
| <b>Mr. David Paulk, Secretary</b><br>Association County Commissioners of Georgia                                 | <b>Mr. John Sallade</b><br>Pennsylvania Counties Risk Pool                        |
| <b>Mr. Rodney Miller, Treasurer</b><br>Missouri Association of Counties  | <b>Mr. Buddy Sharpless</b><br>Association of County Commissions of Alabama        |
| <b>Mr. Andy Sargeant, Assistant Treasurer</b><br>USA Risk Group of Vermont, Inc.,<br>(Resident Vermont Director) | <b>Mr. Philip E. Bell, Executive Director</b><br>County Reinsurance, Limited      |

STANDING COMMITTEES OF  
COUNTY REINSURANCE, LIMITED

Claims Committee

Mr. David Paulk, Chairman  
Mr. Ron Lethgo  
Mr. Craig Nelson  
Mr. John Sallade  
Mr. Bob Wormsley

Investment Committee

Mr. Andy Sargeant, Chairman  
Mr. Wayne Carlson  
Mr. Jim Jean  
Mr. Rodney Miller

Underwriting Committee

Mr. Rodney Miller, Chairman  
Mr. Joe Greathouse  
Mr. Jim Jean  
Ms. Susan W. Klakoff  
Mr. Ron Lethgo

Audit Committee

Mr. Ron Lethgo, Chairman  
Mr. Jim Jean  
Mr. Craig Nelson  
Mr. Lester Nixon

SERVICE PROVIDERS  
OF COUNTY REINSURANCE, LIMITED

Brokerage and Risk Management Services

Marsh USA, Inc.

Captive Management and Accounting

USA Risk Group of Vermont, Inc.

Claims Management Services

Alternative Service Concepts, LLC  
Professional Claims Managers, Inc.

Consulting Actuary

By the Numbers Actuarial Consulting, Inc.

Financial Auditor

Johnson Lambert & Company

Legal Counsel

Morris, Manning & Martin LLP  
Primmer and Piper, P.C.

Investment Advisor

Smith Barney Consulting Group

COUNTY REINSURANCE, LIMITED  
AUDITED FINANCIAL STATEMENTS

*Years ended December 31, 2004 and 2003  
with Report of Independent Auditors*

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## Report of Independent Auditors

Board of Directors  
County Reinsurance, Limited

We have audited the accompanying balance sheets of County Reinsurance, Limited ("the Company") as of December 31, 2004 and 2003 and the related statements of income and comprehensive income, changes in members' contributions and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes the consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of County Reinsurance, Limited at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Johnson Lambert & Co.*

Burlington, Vermont  
April 6, 2005

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ONE LAWSON LANE, P.O. BOX 525, BURLINGTON, VT 05402 • PHONE: 802-862-2640 • FAX: 802-862-4837

BETHESDA, MD • BURLINGTON, VT • CHARLESTON, SC • RALEIGH, NC • RED BANK, NJ • RESTON, VA

Balance Sheets

	At December 31,	
	2004	2003
<b>Assets</b>		
Investments		
Investments, at market value	\$ 42,036,021	\$ 30,485,914
Other investments, at market value	5,006,322	—
Total Investments	47,042,343	30,485,914
Cash and cash equivalents	3,148,688	4,416,248
Premiums receivable	386	4,199
Due from investment broker	38,061	—
Ceded reinsurance balances receivable	—	454,000
Reinsurance recoverable - unpaid losses	5,707,003	6,366,716
Deferred policy acquisition costs	17,254	13,430
Fixed assets, net of accumulated depreciation of \$560 in 2004 and \$0 in 2003	7,998	3,589
Prepaid reinsurance premiums	2,009,357	2,268,575
Other assets	450,175	429,595
Total Assets	\$ 58,421,265	\$ 44,442,266
<b>Liabilities and Members' Contributions and Surplus</b>		
<b>Liabilities</b>		
Losses and loss adjustment expenses	\$ 37,580,039	\$ 30,190,601
Unearned premiums	8,062,383	7,332,283
Ceded reinsurance balances payable	13,195	—
Accounts payable and accrued expenses	173,328	54,325
Premium taxes payable	36,329	35,750
Deferred ceding commission income	266,640	238,881
Total Liabilities	46,131,914	37,851,840
<b>Members' Contributions and Surplus</b>		
Members' contributions	7,607,593	5,646,273
Accumulated other comprehensive income	2,053,644	2,103,448
Retained earnings (accumulated deficit)	2,628,114	(1,159,295)
Total Members' Contributions and Surplus	12,289,351	6,590,426
Total Liabilities and Members' Contributions and Surplus	\$ 58,421,265	\$ 44,442,266

See accompanying notes to the financial statements

Statements of Income and Comprehensive Income

	Years ended December 31,	
	2004	2003
<b>Underwriting Revenue</b>		
Premiums earned	\$ 13,187,947	\$ 9,019,816
Commission income	600,287	441,407
Total Underwriting Revenue	13,788,234	9,461,223
<b>Underwriting Expenses</b>		
Losses and loss adjustment expenses	11,388,836	9,274,669
Policy acquisition costs	272,035	161,637
Professional and management fees	126,155	99,356
General and administrative expenses	485,593	289,000
Total Underwriting Expenses	12,272,619	9,824,662
Operating Income (Loss)	1,515,615	(363,439)
<b>Investment Income</b>		
Unrealized gains from derivative investments	136,781	—
Gain on investment in limited partnerships	23,541	—
Net investment income	935,152	681,659
Net realized gains on investments	1,176,320	207,420
Total Investment Income	2,271,794	889,079
Net Income	3,787,409	525,640
<b>Other Comprehensive Income</b>		
Net unrealized holding gains arising during the period	1,126,516	2,041,727
Less: reclassification adjustment for realized gains included in net income	(1,176,320)	(207,420)
Other Comprehensive (Loss) Income	(49,804)	1,834,307
Comprehensive Income	\$ 3,737,605	\$ 2,359,947

See accompanying notes to the financial statements

Statement of Changes in Member’s Contributions and Surplus

For the years ended December 31, 2004 and 2003

	Members’ Contributions	Retained Accumulated Other Comprehensive Income	Earnings/ (Accumulated Deficit)	Total Members’ Contributions and Surplus
BALANCE AT JANUARY 1, 2003	\$ 3,031,383	\$ 269,141	\$ (1,684,935)	\$ 1,615,589
Proceeds from members’ contributions	2,614,890	–	–	2,614,890
Other comprehensive income	–	1,834,307	–	1,834,307
Net income	–	–	525,640	525,640
BALANCE AT DECEMBER 31, 2003	5,646,273	2,103,448	(1,159,295)	6,590,426
Proceeds from members’ contributions	1,961,320	–	–	1,961,320
Other comprehensive loss	–	(49,804)	–	(49,804)
Net income	–	–	3,787,409	3,787,409
BALANCE AT December 31, 2004	<u>\$ 7,607,593</u>	<u>\$ 2,053,644</u>	<u>\$ 2,628,114</u>	<u>\$ 12,289,351</u>

See accompanying notes to the financial statements

Statements of Cash Flows

Cash Flows from Operating Activities

	Year ended December 31,	
	2004	2003
Net income	\$ 3,787,409	\$ 525,640
Add (deduct) items not affecting cash		
Amortization of bond discount	213,158	320,105
Net realized gains on investments	(1,176,320)	(207,420)
Depreciation	560	–
Changes in assets and liabilities:		
Premiums receivable	3,813	302,935
Due to broker	(38,061)	–
Ceded reinsurance balances payable	454,000	(454,000)
Reinsurance recoverable - unpaid losses	659,713	(847,873)
Deferred policy acquisition costs	(3,824)	(2,687)
Prepaid reinsurance premiums	259,218	(166,527)
Other assets	(20,580)	(167,039)
Losses and loss adjustment expenses	7,389,438	7,339,236
Unearned premiums	730,100	2,557,521
Ceded reinsurance balance payable	13,195	(1,586,801)
Accounts payable and accrued expenses	119,003	(51,981)
Premium taxes payable	579	12,877
Deferred ceding commission income	27,760	50,989
Net cash provided by operating activities	<u>12,419,161</u>	<u>7,624,975</u>

Cash flows from investing activities

Cost of investments acquired	(36,123,230)	(19,014,706)
Proceeds from sales and maturities of investments	20,480,158	9,531,997
Cost of fixed assets purchased	(4,969)	(3,589)
Net cash used in investing activities	<u>(15,648,041)</u>	<u>(9,486,298)</u>

Cash flows from financing activities

Proceeds from members’ contributions	<u>1,961,320</u>	<u>2,614,890</u>
Net change in cash and cash equivalents	(1,267,560)	753,567
Cash and cash equivalents, beginning of year	<u>4,416,248</u>	<u>3,662,681</u>
Cash and cash equivalents, end of year	<u>\$3,148,688</u>	<u>\$4,416,248</u>

See accompanying notes to the financial statements

Notes to Financial Statements  
Years ended December 31, 2004 and 2003

Note A - Organization and Significant Accounting Policies

*Organization*

County Reinsurance, Limited (CRL) was incorporated under the laws of the State of Vermont on June 20, 1997 and was issued a Certificate of Authority permitting it to transact the business of an industrial insured captive insurance company by the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration (the Department) on June 24, 1997. CRL commenced operations on July 1, 1997. CRL assumes various casualty coverages from twenty-two and nineteen public entity pools at December 31, 2004 and 2003, respectively. These public entity pools provide direct coverages to approximately 2,500 policy holders (2,100 in 2003) located in Alabama, Arkansas, Arizona, Georgia, Kentucky, Missouri, Nebraska, Nevada, North Carolina, New Mexico, Pennsylvania, Tennessee, Texas and Utah at December 31, 2004. As of December 31, 2004 and 2003, premiums from the three largest pools represent approximately 44% and 51% of gross written premiums, respectively.

*Basis of Reporting*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Recognition of Premium Revenue*

Premiums assumed are earned ratably over the terms of the policies to which they relate. Premiums assumed relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums. Premiums ceded pursuant to reinsurance agreements are expensed over the terms of the underlying policies to which they relate and are netted against earned premiums. Ceded premiums relating to the unexpired portion of underlying policies are recorded as prepaid reinsurance premiums.

*Losses and Loss Adjustment Expenses*

The liability for unpaid losses and loss adjustment expenses reported in the financial statements includes case basis estimates of reported losses, plus supplemental amounts for projected incurred but not reported losses (IBNR) calculated based upon loss projections utilizing actuarial studies of the members' own historical loss data for periods prior to and subsequent to the creation of CRL and industry data. In establishing its liability for losses and loss adjustment expenses, CRL utilizes the findings of an independent consulting actuary. Management believes that its aggregate liability for unpaid losses and loss adjustment expenses at year end represents its best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of losses; however, because of uncertainty associated with the limited population of insured risks, economic conditions, judicial decisions, legislation and others reasons, actual loss experience may not conform to the assumptions used in determining

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note A - Organization and Significant Accounting Policies (Continued)

the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

*Reinsurance Recoverable - Unpaid Losses*

Reinsurance recoverable is comprised of estimated amounts of losses and loss adjustment expenses unpaid which are expected to be recoverable from reinsurers pursuant to reinsurance agreements. Such amounts have been estimated using actuarial assumptions consistent with those used to estimate the related liability for unpaid losses and loss adjustment expenses. Management believes that the reinsurance recoverable as recorded represents its best estimate of such amounts; however, as changes in the estimated ultimate liability for losses and loss adjustment expenses are determined, the estimated ultimate amount receivable from reinsurers will also change. Accordingly, the ultimate receivable could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

CRL relies on ceded reinsurance to limit its insurance risk as described further in Note B. In entering into reinsurance agreements, management considers a variety of factors including the creditworthiness of reinsurers. In preparing financial statements, management makes estimates of amounts recoverable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible by management based on an assessment of factors including an assessment of the creditworthiness of the reinsurers. Management has determined that no provisions for uncollectible recoveries are necessary as of December 31, 2004 and 2003.

*Commission Income*

Commission income on business ceded to reinsurers and on excess workers' compensation business placed directly by the policyholders through reinsurers are deferred and earned over the terms of the underlying policies to which they relate. Commissions relating to the unexpired portion of the underlying policies in force at the balance sheet date are recorded as deferred ceding commission income.

*Deferred Policy Acquisition Costs*

Premium taxes and other costs of acquiring business are deferred and amortized over the terms of the underlying policies to which they relate.

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note A - Organization and Significant Accounting Policies (Continued)

Investments

Investments held by CRL consist of U.S. Treasury notes, obligations of U.S. government corporations and agencies, corporate bonds, an asset-backed security, and common stocks. These investments are classified as "available-for-sale" and are carried at their estimated fair values based on quoted market prices with unrealized gains and losses reported as a component of other comprehensive income/(loss) in members' contributions and surplus. Realized gains and losses are determined using the specific identification method.

Other Investments

Other investments represent investments in three futures limited partnership funds held through Smith Barney. Investments in partnerships have been accounted for using the equity method based on the partnership's proportionate share of net assets of the invested limited partnership. In addition, the Company invests in two alternative funds that invest in derivative instruments. These funds are accounted for under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". The gain or loss on the derivative instruments are recognized currently in earnings.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CRL considers money market funds and all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents at December 31, 2004 and 2003 are as follows:

	2004	2003
Chittenden Checking Account	\$ 153,852	\$ 56,208
Smith Barney Money Fund Cash Port	2,994,836	4,360,040
Total	<u>\$ 3,148,688</u>	<u>\$ 4,416,248</u>

Operating Lease Commitments

CRL entered into a three year lease agreement, expiring November 30, 2006. Rent expense charged to operations and future minimum lease payments are described further in Note F.

Furniture and Equipment

Depreciation and amortization are recognized over their estimated service lives of depreciable assets. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes. Depreciation expense charged to operations was \$560 and \$0 in 2004 and 2003, respectively.

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note A - Organization and Significant Accounting Policies (Continued)

Reclassifications

Certain balances in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

Note B - Insurance Activity

CRL assumes through various public entity pools liability coverages on an occurrence and a claims-made basis up to \$7 million inclusive of the individual pool retentions, which range from \$100,000 to \$500,000, with aggregate limits consistent with the individual pool policies. Prior to July 1, 2002, CRL limited its risks to the first million per occurrence or claim through a reinsurance agreement with Discover Reinsurance. Effective July 1, 2002, CRL added a corridor to its casualty policies through which it retains \$1 million excess \$1 million with an annual aggregate of \$3 million. Effective July 1, 2003 the annual aggregate was increased to \$5 million. Risks in excess of this corridor are ceded to Discover Reinsurance. Effective July 1, 2004, CRL limited its risks to the first two million per occurrence or claim through a reinsurance agreement with Discover Reinsurance and The Insurance Company of The State of Pennsylvania. Effective July 1, 2004, defense costs can be within the limit of coverage, in addition to the limit of coverage capped at \$500,000, or in addition to the limit of coverage shared on a pro-rata basis with the member, but capped at \$500,000.

CRL also assumes for certain members property coverage up to \$5 million inclusive of the individual pool retentions, which range from \$100,000 to \$250,000. This coverage is 100% ceded to Discover Reinsurance.

Currently, CRL assumes workers' compensation coverage from various public entity pools with limits up to \$2 million per occurrence inclusive of individual pool retentions which range from \$250,000 to \$750,000. CRL also assumes workers' compensation coverage for several other pools, from United States Fidelity and Guaranty Company (USF&G) and Safety National Casualty Corporation (SNCC) on an occurrence basis with a limit of up to \$2 million inclusive of the individual pool retentions, which range from \$250,000 to \$750,000. Effective July 1, 2002, the USF&G policy has a corridor deductible in which CRL retained \$1 million excess \$1 million, with an annual aggregate of \$1.325 million. Effective July 1, 2003, the UFG&G did not have a corridor. Effective July 1, 2004, the SNCC policy had a corridor deductible in which CRL retained \$750,000 excess of \$2 million with an annual aggregate of \$750,000.

**Notes to Financial Statements (Continued)**  
**Years ended December 31, 2004 and 2003**

**Note B - Insurance Activity (Continued)**

CRL provides a letter of credit for the benefit of USF&G in the amount of \$9,949,705, as of December 31, 2004 and 2003. CRL pledged investments with a carrying value of \$9,949,705 at December 31, 2004 and 2003, as collateral for this outstanding letter of credit.

CRL provides a letter of credit for the benefit of Safety National Casualty Corporation in the amount of \$500,000 and \$0 at December 31, 2004 and 2003, respectively. CRL pledged investments with a carrying value of \$500,000 and \$0 at December 31, 2004 and 2003, respectively, as collateral for this outstanding letter of credit.

CRL provides a letter of credit for the benefit of the Association of County Commissioners of Georgia Interlocal Risk Management Agency in the amount of \$4,908,878 at December 31, 2004 and 2003. CRL pledged investments with a carrying value of \$4,908,878 at December 31, 2004 and 2003 as collateral for this outstanding letter of credit.

CRL provides a letter of credit for the benefit of the Association of County Commissioners of Georgia Group Self-Insurance Workers Compensation Fund in the amount of \$684,423 at December 31, 2004 and 2003. CRL pledged investments with a carrying value of \$684,423 at December 31, 2004 and 2003 as collateral for this outstanding letter of credit.

Effective July 1, 1997, CRL obtained aggregate stop loss reinsurance from USF&G to limit its total aggregate losses to \$5,655,000 per annum (\$16,965,000 over the three year period ending June 30, 2000), for the various casualty and workers' compensation coverages. This coverage was extended with attachment points at \$7,000,000 and \$14,250,000 for the 2000-2001, 2001-2002, policy years, respectively. CRL did not purchase aggregate stop loss coverage subsequent to the 2001-2002 policy period.

Reinsurance transactions do not relieve CRL of its primary obligations to the ceding public entity pools.

A reconciliation of assumed to net premiums, on both a written and an earned basis is as follows:

	2004		2003	
	Written	Earned	Written	Earned
Assumed	\$ 18,158,774	\$ 17,428,674	\$ 15,889,063	\$ 13,331,542
Ceded	(3,981,510)	(4,240,727)	(4,478,253)	(4,311,726)
Net Premiums	<u>\$ 14,177,264</u>	<u>\$ 13,187,947</u>	<u>\$ 11,410,810</u>	<u>\$ 9,019,816</u>

**Notes to Financial Statements (Continued)**  
**Years ended December 31, 2004 and 2003**

**Note B - Insurance Activity (Continued)**

The components of the liability for losses and loss adjustment expenses and related reinsurance recoverable are as follows:

	2004	2003
Case-basis reserves	\$ 12,653,402	\$ 13,702,346
IBNR reserves	24,926,637	16,488,255
Gross reserves	37,580,039	30,190,601
Reinsurance recoverable	<u>(5,707,003)</u>	<u>(6,366,716)</u>
Net reserves	<u>\$ 31,873,036</u>	<u>\$ 23,823,885</u>

Losses and loss adjustment expense activity is as follows:

	2004	2003
Liability as of January 1, net of reinsurance recoverable		
\$ of 6,366,716 and \$5,518,843	<u>\$ 23,823,885</u>	<u>\$ 17,332,522</u>
Incurred related to:		
Current year	11,425,582	7,891,334
Development of prior years	<u>(36,746)</u>	<u>1,383,335</u>
Total incurred during the year	<u>11,388,836</u>	<u>9,274,669</u>
Paid related to:		
Current year	(237,098)	(29,317)
Prior years	<u>(3,102,587)</u>	<u>(2,753,989)</u>
Total paid	<u>(3,339,685)</u>	<u>(2,783,306)</u>
Liability as of December 31, net of reinsurance recoverable		
of \$5,707,003 and \$6,366,716	<u>\$ 31,873,036</u>	<u>\$ 23,823,885</u>

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note C - Investments

The cost, gross unrealized gains, gross unrealized losses and estimated fair values of fixed maturity and equity securities at December 31 are as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2004				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 18,068,651	\$ 159,198	\$ (95,042)	\$ 18,132,807
Corporate bonds	11,936,242	219,454	(29,218)	12,126,478
Asset-backed security	140,459	7,210	–	147,669
Common stocks	9,837,019	1,843,856	(51,808)	11,629,067
Totals	<u>\$ 39,982,371</u>	<u>\$ 2,229,718</u>	<u>\$ (176,068)</u>	<u>\$ 42,036,021</u>

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2003				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 11,356,392	\$ 167,513	\$ –	\$ 11,523,905
Corporate bonds	10,189,045	265,390	–	10,454,435
Asset-backed security	246,485	–	(5,318)	241,167
Common stocks	6,590,534	1,744,021	(68,148)	8,266,407
Totals	<u>\$ 28,382,456</u>	<u>\$ 2,176,924</u>	<u>\$ (73,466)</u>	<u>\$ 30,485,914</u>

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note C - Investments (Continued)

Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations without penalty. The scheduled maturities of bond investments at December 31, 2004 are as follows:

	Amortized Cost or Cost	Estimated Fair Value
Maturity:		
In 2005	\$ 8,061,734	\$ 8,025,793
In 2006-2009	10,986,035	11,018,398
In 2010-2014	<u>10,957,124</u>	<u>11,215,094</u>
Subtotals	30,004,893	30,259,285
Asset-backed security	<u>140,459</u>	<u>147,669</u>
Totals	<u>\$ 30,145,352</u>	<u>\$ 30,406,954</u>

Note D - Other Investments

Other investments consist of the following at December 31, 2004:

	Cost	Unrealized Gain/(Loss)	Holding Value
Derivative Investments			
Arden Endowment Fund	\$ 1,900,000	\$ 73,731	\$ 1,973,731
Austin Capital All Seasons Fund	<u>1,486,000</u>	<u>63,050</u>	<u>1,549,050</u>
Totals	<u>\$ 3,386,000</u>	<u>\$ 136,781</u>	<u>\$ 3,522,781</u>

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note D - Other Investments (Continued)

	Cost	Unrealized Gain/(Loss)	Holding Value
<b>Investments in Limited Partnerships</b>			
Fairfield Futures Fund II L.P.	\$ 480,000	\$ 10,797	\$ 490,797
Citigroup Diversified Futures Fund L.P.	520,000	17,350	537,350
Smith Barney Potomac Futures Fund L.P.	460,000	(4,606)	455,394
Total	<u>\$ 1,460,000</u>	<u>\$ 23,541</u>	<u>\$ 1,483,541</u>

The Arden Endowment Fund and Austin Capital All Seasons Fund are described as hedge funds. The objective of the Arden Endowment Fund is to achieve capital appreciation through allocation of its assets among a select group of money managers, each of which employs a variety of investment strategies. The Austin Capital Fund's objective is to achieve superior investment returns with less volatility and risk than the conventional balanced portfolios of equity and fixed income securities through the use of a multi-manager, multi-strategy approach. The profitability of a significant portion of the fund depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There is no assurance that the trading strategies employed by the managers will be successful or result in any profitable returns. The estimated fair value of these funds are determined by the investment advisors.

CRL also invested in three futures funds, Fairfield Futures Fund L.P., Citigroup Diversified Futures Fund L.P. and Smith Barney Potomac Futures Fund L.P. for which it has .59%, .066% and .288% ownership interest, respectively. These Funds' objective is to achieve substantial capital appreciation through speculative trading in U.S. and international markets. The funds may employ futures, options on futures and forward contracts in those markets. Investment in these funds is speculative and involves a high degree of risk. Futures, forwards and options trading is speculative, volatile and involves a high degree of leverage. There is a risk to lose a substantial portion or all of the investment. There are no liabilities associated with these limited partnerships as of December 31, 2004.

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note E - Federal Income Taxes

CRL is a corporation formed to provide various types of reinsurance coverages solely to its members who are non-profit, risk-sharing pools of political subdivisions of states. CRL received approval to be tax exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Service Code. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

Note F - Service Agreements and Related Party Transactions

Accounting and reporting services, records retention and other management services are provided by USA Risk Group of Vermont, Inc. The National Association of Counties - Financial Services Center provides advertising and marketing services. Marsh Inc. provides brokerage and risk management services.

CRL employs an Executive Director, whose responsibilities include supervising all contractors, vendors and service providers engaged by CRL, and handling claims management. The Executive Director also contracts with service providers to provide claims management consultation and advice.

Note G - Operating Lease Commitments

CRL leases office space from Chad A. and Carrie L. Williams Trust. The office space is located at 2245 Lewisville Clemmons Road, Suite E, Clemmons, North Carolina, expires on November 30, 2006 and the lease is payable in equal monthly installments of \$925.

Total rent expense charged to operations approximated \$11,100 and \$925 for 2004 and 2003, respectively. CRL also pays for its allocated electric and janitorial expenses. The total expense charged to operations was \$3,999 and \$245 for 2004 and 2003, respectively.

Future minimum lease payments for all noncancellable operating leases having a term in excess of one year at December 31, 2004, are as follows:

Years Ending	Amount
2005	\$ 11,100
2006	<u>10,175</u>
Total	<u>\$ 21,275</u>

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note H - Furniture and Equipment

At December 31, 2004 and 2003, furniture and equipment purchased is detailed as follows:

	2004	2003
Furniture and equipment purchased	\$ 8,558	\$ 3,589
Less: accumulated depreciation	(560)	—
Furniture and equipment, net	<u>\$ 7,998</u>	<u>\$ 3,589</u>

Depreciation expense of \$560 and \$0 on assets purchased for the years ended December 31, 2004 and 2003, respectively, is included in general and administrative expenses.

Note I - Members' Contributions and Surplus

In accordance with laws of the State of Vermont, for the purpose of submitting its financial statements to the State for regulatory purposes, County Reinsurance, Limited is required to use GAAP with the exception of variances prescribed by Vermont laws and regulations or permitted by the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration (the Department). Pursuant to laws of the State of Vermont, County Reinsurance, Limited is required to maintain members' contributions and surplus of \$500,000.

CRL is owned by twenty-two and Nineteen members at December 31, 2004 and 2003, respectively. Each member pool made a contribution based on a percentage of its net reinsurance premium. Contributions totaled \$1,961,320 and \$2,614,890 in 2004 and 2003, respectively.

Upon a withdrawal or termination of a member, the member may request repayment of the original contribution plus a portion of CRL's earnings accumulated during its membership. The repayment may be granted at the discretion of the Board of Directors with prior approval from the Department.

Notes to Financial Statements (Continued)  
Years ended December 31, 2004 and 2003

Note I - Members' Contributions and Surplus (Continued)

Net income and capital and surplus (members' contributions and surplus) as reported in the 2004 Vermont Captive Insurance Company Annual Report and the corresponding amounts reported in these financial statements are reconciled as follows:

	2004	
	Net Income	Capital and Surplus
As reported in the Annual Report	\$ 3,627,086	\$ 12,289,350
Realized gains on other investments	160,322	—
Rounding	<u>1</u>	<u>—</u>
As reported in the financial statements	<u>\$ 3,787,409</u>	<u>\$ 12,289,350</u>

There are no differences, other than rounding, between members' contributions and surplus and net income as reported in the 2003 (amended) Vermont Captive Insurance Company Annual Report and the corresponding amounts reported in these financial statements.

COUNTY REINSURANCE, LIMITED  
2245 Lewisville Clemmons Road  
Suite E  
Clemmons, North Carolina 27012



**COUNTY REINSURANCE, LIMITED**  
2245 Lewisville Clemmons Road  
Suite E  
Clemmons, North Carolina 27012

# **CEO REPORT**

**Report Date: August 23, 2005**

**Period covered by report: from June 23, 2005 to August 23, 2005**

## **BOARD INFORMATION ITEMS**

1. The Governance Meeting of AGRIP is scheduled for November 14-16 in San Antonio, TX. Seminar schedule is attached.
2. CEO inspected the Silver Reef property of Washington County and attended the County's Employee Appreciation dinner.
3. CEO inspected the Wendover Airport premises and buildings. I would recommend that the Board meet in Wendover next year to tour facility.
4. County Reinsurance Limited (CRL) annual report is in your packet.
5. Review updated business plan.
6. Marsh report on the state of the insurance marketplace is in your packet.

## **COMMITTEE MEETINGS**

1. The Health Pool Committee met telephonically on August 4 and 18 for an update on Phase II of the health pool study from Marsh.

## **MARKETING**

1. Wasatch Mental Health, which is under the direction of the Utah County Commissioners, began Workers' Compensation coverage on July 1. Wasatch Mental Health has 350 employees with very good experience. Annualized premium is \$48,000.

## **CLAIMS**

1. Workers' Compensation claims report is attached. Page one summarizes all claims for 2005 to date. Page two has all claims for all years. Gross claims development through the first seven months of 2005 is \$1,178,984, of which \$821,003 is for the fire chief killed in Juab County. UCIP's exposure is \$300,000 of the \$821,000. Excluding this loss, the 2005 experience continues to be good. Total incurred, less the \$519,902 reserved to the reinsurer, is \$659,082, which puts the loss ratio at 40%.

2. Multiline claims report is attached. In the current year we have two property shock losses, one in Box Elder and one in Tooele. The claims amount shown in Box Elder is before reinsurance recoverable of \$376,416. The Tooele property loss has been settled for \$225,000.

In the current multiline accident year, we have incurred losses of \$1,382,397, less the recoverable of \$376,416, making net incurred to UCIP of \$1,005,981 through the first seven months of the year. On an annual net premium of \$3,140,000, of which \$1,831,667 would have been earned through July 31, the loss ratio is 55%.

We will have a review of large claims in the closed session.

## **FINANCIAL STATEMENT**

This is the report for the second quarter of 2005.

- **Balance Sheet** – significant changes are
  - **Assets**
    - PTIF decrease to \$529,192 due to increased investment with UBS
    - CRL equity has increased to \$284,000
    - Unrestricted investments increased due to UBS deposits
    - UCIP capital has increased due to equipment purchases
  - **Liabilities**
    - Reserve increased almost \$600,000
- **Budget to Actual Comparison-Multiline**
  - Revenues and expenses are on track
- **Budget to Actual Comparison-Workers' Compensation**
  - Revenues and expenses are on track
- **Budget to Actual Comparison-Administration**
  - At 50% of the year, we have used 46.72% of the administration budget
  - Costs above 50% that require attention are copying costs, professional fees, staff medical and staff payroll. Medical and payroll are up due to the addition of one staff person. Professional fees reflect temporary help, and attorney fees for recovery of reinsurance.



- Home
- Membership
- FYI Reading
- Seminars
- Pool Marketplace
- AGRIP Projects
- Links
- Publications
- E-mail Us

#### Seminars

#### Past Conference Presentations

#### Quality Education Initiative

✉ hpumford@agrip.org

Association of  
Governmental Risk Pools  
Post Office Box J  
2222 West Main  
Prague, OK 74864-1045

(405)567-2611  
f/(405)567-3307

## Online Registration

### 2005 AGRIP Governance & Leadership Conference Hyatt Regency on the Riverwalk November 14 - 16, San Antonio, TX

\*\*\*Please use separate form for each registration.\*\*\*

#### Registration Fees: (Includes: Reception and two lunches)

- ☐ \$525 1st From **AGRIP Member Pool**
- ☐ \$445 Each additional Registrant from same **AGRIP Member Pool**
- ☐ \$525 **Partner Member** - Registration is for the person retaining an AGRIP Partner membership and QEI Patron Employees
- ☐ \$700 All Others
- ☐ \$60 Spouse Registration (Includes: Reception and two lunches)

Enter Spouse's Full Name for Badge

- ☐ \$75 Late Fee - Applied to registrations postmarked after November 7, 2005

#### Spouse plans to attend the following:

- ☐ Sunday Reception
- ☐ Monday Lunch
- ☐ Tuesday Lunch

#### Single Event Fees (for non-registered guest/spouse)

- |  |   |
|--|---|
| <input type="checkbox"/> \$25 Sunday Reception | <input type="checkbox"/> Number Attending |
| <input type="checkbox"/> \$25 Monday Lunch     | <input type="checkbox"/> Number Attending |
| <input type="checkbox"/> \$25 Tuesday Lunch    | <input type="checkbox"/> Number Attending |

1. Sonya will make conference registrations. If you will be attending please sign here:

\_\_\_\_\_

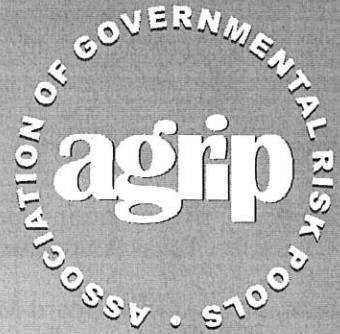
If your spouse will be joining you, please write her name in the field above, select either *Spouse Registration (\$60)* and check events that your spouse plans to attend **OR** check the single event(s) spouse plans to attend.

Return sheet to Sonya.

2. Please make your own airfare. Delta flights (as of 8/16/05) are at \$272.90. Fax receipt to Sonya for reimbursement.
3. Hotel rooms have been booked at the Hyatt Regency on the Riverwalk arriving November 13 and leaving November 16 (king/no smoking). Please let Sonya know if you are planning to extend your stay and/or if you want two-queens. The Hotel is nine miles from the airport. Sonya will make arrangements for travel to and from the hotel for you.



# 2005 Governance and Leadership Conference November 14-16, 2005



## Conference Brochure

### Decisions And Influence For The Coming Revolution

A Conference for governing board members, staff, AGRiP Partners and all others who have an interest or stake in the governance and leadership process for public entity risk and benefits pools.

#### 2005 Conference Highlights

Powerful and thought-provoking sessions, a relaxing and historical venue, world-class culture and opportunities to meet with public entity risk and benefits pool officials from throughout the country all come together in San Antonio for the **2005 AGRiP Governance and Leadership Conference**. Attendees will find themselves in the center of the famed Riverwalk and in close proximity to the Alamo, shopping and numerous other venues of interest in San Antonio.

Special activities underway in San Antonio during this time include an artifacts exhibition of "**Saint Peter and the Vatican: The Legacy of the Popes**" at the nearby Henry B. Gonzalez Convention Center; and the **Artesanos del Pueblo – A Celebration of Folk Art** on Saturday and Sunday before the conference. Consult the SEMINARS area at [www.agrip.org](http://www.agrip.org) for more information on these exhibits and other San Antonio activities.

Attendees will also be able to experience a multi-cab **driver training simulator** courtesy of the Texas Association of Counties (TAC) pools. This self-contained trailer unit will be outside of the hotel from Sunday afternoon until the end of sessions on Tuesday. The TAC simulator is capable of providing driver training for fire, EMS, heavy truck and police vehicles.

#### Other Conference Highlights

Six powerful principles managers can implement to exact productive change in the workforce

Cyberaudits as a value-added pool service

An actuarial perspective on market conditions and trends

Getting the most from legal counsel

Hiring and evaluating the pool executive

Mega-trends redefining the future of local governments

Governance Conference Facility - Hyatt Regency San Antonio  
123 Losoya Street, San Antonio, TX 78205  
Phone: 888.421.1442

Make your hotel reservations early! Hotel Guaranty Expires October 23, 2005

The Brochure and registration/reservation forms for the  
2005 Governance and Leadership Conference are available at [www.agrip.org](http://www.agrip.org)  
On-line registration and hotel reservation available

# November 14-16, 2005 AGRiP Governance and Leadership Conference Decisions And Influence For The Coming Revolution

## CONFERENCE SCHEDULE

### SUNDAY – November 13

- 1:15 pm Registration Opens  
Texas Association of Counties driving simulator opens
- 3:00 pm AGRiP Board Meeting
- 6:00 pm Registration Closes
- 6:30 pm Opening Reception and Recognition of QEI Sponsors

### MONDAY – November 14

- 7:30 am Registration and Breakfast
- 8:30 am TAC driving simulator and Reading Room Open
- 9:00 am Opening - **Michael Rhyner**, *President of the AGRiP Board of Directors and CEO, Michigan Municipal Risk Management Authority*
- 9:15 am GENERAL SESSION – **“The 5 Best Decisions The Beatles Ever Made...And Why You Should Make Them, Too!”**, *Speaker: Bill Stainton, founder of Ovation Consulting Group, Inc, Mukilteo, WA.*



Bill Stainton, internationally-recognized Beatles expert and author of nine corporate training programs on subjects from customer service to leadership and team building combines music, video, humorous stories and on-target management tools to build clarity in focus, team building, more cooperation and cohesiveness that leads toward common goals.

### 10:45 am CONCURRENT SESSIONS

- A. “Pooling Basics Track”**, *Speakers: Patrick Parsons, CEO, Oklahoma Municipal Assurance Group and John Nielsen, CEO, Ohio Transit Risk Pool*

This track will continue until 4:00 pm. The Pooling Basics Track is a primer on public entity risk and benefits pooling for those new to their positions as a member of a pool governing body or staff.

- B. “Pros And Cons Of In-House Staffing”**

Learn experiences of pools that have decided to bring various services in-house rather than contract for them; and from pools that have determined they prefer to have such services provided through a contract rather than staff arrangement. *Speakers to be announced at a later time.*

Noon Lunch and program on “Celebrating Pool Anniversaries”

### 1:15 pm CONCURRENT SESSIONS

- A. “Pooling Basics Track” continues**

**November 14-16, 2005 AGRiP Governance and Leadership Conference  
Decisions And Influence For The Coming Revolution**

**B. "Technological Darwinism In The New Era Of Risk Management", *Speaker: Randy Wheeler, Founder and CEO of Valley Oak Systems***

One of the biggest challenges in today's risk market is adapting to the fast rate of change. Harsh conditions - such as increased litigation, a stagnant economy, rising healthcare costs and new regulations continue to complicate the picture. As the climate has changed, pools have had to adapt. A key strategy has been to leverage the best, most innovative technology solutions in order to fulfill business objectives, overcome primary market challenges and compete in an ever-changing world. This session covers strategies for the technological survival of the fittest.

2:30 pm Break

2:45 pm CONCURRENT SESSIONS

**A. "Pooling Basics Track" continues**

**B. "Cyberaudits As A Value-Added Pool Service", *Speakers: Peter Schindel, RPLU, Vice President, Arthur J. Gallagher Risk Management Insurance Services and staff from the Alliance of Schools for Cooperative Insurance Programs (ASCIP), Cerritos, CA***

To protect against risks from computer security breaches and crime exposures, ASCIP implemented a loss control program to provide "cyber-risk surveys" for community college and large school district members. This session will address how the pool identified the need for such assessments and the design for this pioneering loss control program, including a case study.

**C. "Maximizing Recovery Through Workers' Compensation Second Injury Funds", *Speaker: W. Fred Uehlein, Esq., Founder and Chairman of Insurance Recovery Group***

Each year millions of workers' compensation dollars that should be reimbursed by state Second Injury Funds go unclaimed. Traditional recovery systems leave 15 to 30 percent of the opportunities on the table, while other opportunities linger for years. In this session, learn to identify the major barriers to recovery. Discuss when, where, and how Second Injury Funds come into place and methods for measuring and monitoring recovery efforts.

4:00 pm Open Evening

**TUESDAY – November 15**

7:30 am Registration  
Facilitated Breakfast Discussion Groups by Lines of Coverage

8:30 am TAC driving simulator and Reading Room

9:00 am **WORKSHOP – "Managing Ethical Influence", *Speaker: Robert Cialdini, PhD, President, Influence At Work***



The AGRiP Quality Education Initiative allows us to present this dynamic three-hour workshop for all attendees.

Dr. Cialdini's over 30 years of research has identified six principles that are most powerful in causing one individual to say yes to another. The workshop focuses on questions of how managers may bring about productive, effective, ethical and lasting change in their organization through the individuals they supervise and with whom they work.

The workshop will also reveal how these principles may be implemented positively rather than negatively so that the influence they produce enhances a lasting sense of partnership between those involved in the process.

**November 14-16, 2005 AGRiP Governance and Leadership Conference  
Decisions And Influence For The Coming Revolution**

**TUESDAY – November 15 (continued)**

Noon                      Lunch

1:15 pm                **CONCURRENT SESSIONS**

**A. “Getting The Most From Legal Counsel ”, Speakers: *Matt Markling, JD, and Susan McGown, JD, of McGown & Markling Company, LPA***

This session will explore how to dissect the decision making process when substantial issues of statutory compliance and/or case law are involved and how to understand information that may be delivered by lawyers in legalese. Learn how to phrase questions and issues when seeking legal advice and when to communicate essential information to counsel in the initial stages of litigation or when litigation seems inevitable.

**B. “Methodologies And Approaches Pools Use For Property Appraisals”, Speakers: *Paul Hartnett, Senior Vice President and Nigel Wilson, Managing Director, Insurance Services, American Appraisal Associates***

This session will focus on various approaches and methodologies used by pools for appraisal of covered properties to afford both the pool and its members confidence in the exposures for the pool and coverage provided to members.

2:45 pm                **GENERAL SESSION - “An Actuarial Perspective on Market Conditions and Trends”, Margaret Sherwood, President, Tiller Consulting Group, Inc. will facilitate a discussion by other actuaries**

“Market conditions and trends” is always a popular session at these conferences. In the past, such sessions have included panels of pool executives, brokers and/or reinsurers. This year the focus will be on the current perspectives about general insurance market conditions and trends from a panel of actuaries who regularly work for pool clients. Panelists will address the full spectrum of coverages offered by pools from employee benefits to property and casualty.

4:00 pm                TAC driving simulator ends. Open afternoon and evening.

**WEDNESDAY – November 16**

7:30 am                Registration and Facilitated Breakfast Discussion Groups by Member Types.

9:00 am                **GENERAL SESSION – “Hiring And Evaluating The Pool Executive ”, Panel: *Katherine Ray, SPHR, HBC, Principal, Ray Associates, Inc., and board members from three pools***

Representatives from three pools that have recently hired or promoted someone to the pool’s top administrative post will review the processes used by their organizations to make this critical selection and also discuss their process for evaluating performance in that post. Ms. Ray will then review these experiences in the context of current “best practices”.

10:45 am              **GENERAL SESSION – “The Coming Revolution - Emerging New Local Government Working Orders”, Speaker: *Carl Neu, author and consultant, Neu and Company***



Noted local government theorist and consultant Carl Neu has identified five mega-trends that he believes will bring about a new “Second American Revolution” with new “working orders” as to how local government entities relate to each other and state governments. This presentation will review pacesetting efforts underway in Oregon, California, Minnesota and North Carolina that are reshaping the landscape of local government performance and state-local government relationships.

12:00 pm

**CONFERENCE ENDS**



- [Home](#)
- [The Exhibition](#)
- [Venue](#)
- [Tickets](#)
- [Press Information](#)
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## Exhibition Overview

Experience the history and beauty of the Vatican through a once-in-a-lifetime exhibition of its extraordinary collections of art, liturgical and historical documents, including many objects never before on view to the public. Works by Bernini, Giotto, Canova and others, and objects dating back to the third century, provide a fascinating insight into the Vatican's history.



More than 300 objects, one of the largest Vatican collection ever to tour North America, are presented in the context of dramatic and immersive environments, including representations of the Tomb of Saint Peter, the Sistine Chapel, the ancient and current Saint Peter's Basilicas and other settings. From culture to history to art, explore the impact of this 2,000-year-old institution's influence on the world.

Among the most popular and touching objects of the tour is the bronze cast of Pope John Paul II's hand. It was the pope's wish that a personal blessing, as well as a cast of his hand welcome those visiting the exhibition.

Other highlights include one of the most ancient representations of the face of Jesus Christ, the famous pastoral staff of Pope John Paul II, the Papal Tiara of Pope Pius IX, the codex of Saint Peter's Square and Basilica, reliquaries, a 4th Century sarcophagus, 5th Century fresco of Saint Peter, a 799 A.D. mosaic of an apostle and other works by many of the world's most acclaimed artists throughout the centuries. Liturgical objects, frescoes, jewelry, vestments, maps and historic documents, sculptures and paintings, offer an amazing look into the papacy and the Vatican.

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If you arrive early enough on Sunday, November 13, you may want to consider viewing the Saint Peter and the Vatican Exhibition. Hours are 11:00 a.m. through 6:00 p.m. and tickets are \$16.00. Please make your own arrangements.

Address <http://www.nba.com/spurs/schedule/>

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**SPURS SCHEDULES & RESULTS**

Monthly Schedule Go Previous Seasons Go Other Team Schedule Go

**2005-2006 SPURS SCHEDULE**  
 OCTOBER | NOVEMBER | DECEMBER | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE

Oct	Opponent	Time*	Local TV	National TV
Wed 12	@ Philadelphia Preseason Colonial Center, Columbia, SC	6:30pm	--	--
Thu 13	Washington Preseason LJVM Coliseum, Winston-Salem, NC	6:30pm	--	--
Sat 16	Houston Preseason	7:30pm	--	--
Tue 18	@ Indiana Preseason	7:00pm	--	--
Thu 20	@ New Orleans Preseason	7:00pm	--	--
Sat 22	New York Preseason	7:30pm	--	--
Tue 26	Indiana Preseason	7:30pm	--	--
Thu 27	Philadelphia Preseason	7:30pm	--	--
<b>Nov</b>	<b>Opponent</b>	<b>Time*</b>	<b>Local TV</b>	<b>National TV</b>
Tue 1	Denver	7:00pm	--	TNT
Fri 4	Cleveland	7:00pm	--	ESPN
Sat 5	@ Dallas	7:30pm	--	--
Mon 7	@ Chicago	7:30pm	--	--
Wed 9	@ Charlotte	6:30pm	--	--
Fri 11	@ Boston	6:30pm	--	--
Sat 12	@ Washington	6:00pm	--	NBTV
<b>Tue 15</b>	<b>Atlanta</b>	<b>7:30pm</b>	<b>--</b>	<b>--</b>
Thu 17	Houston	8:30pm	--	TNT
Sat 19	Phoenix	7:30pm	--	NBTV
Mon 21	@ Sacramento	9:00pm	--	--
Wed 23	@ Golden State	9:30pm	--	--
Fri 25	Chicago	7:30pm	--	--
Tue 29	L.A. Lakers	7:30pm	--	NBTV
<b>Dec</b>	<b>Opponent</b>	<b>Time*</b>	<b>Local TV</b>	<b>National TV</b>
Thu 1	@ Dallas	7:00pm	--	TNT
Sat 3	Philadelphia	7:30pm	--	--
Mon 5	@ Orlando	6:00pm	--	--
Wed 7	Miami	8:00pm	--	ESPN
Fri 9	Boston	7:30pm	--	--
Sat 10	@ Atlanta	6:00pm	--	--
Tue 13	L.A. Clippers	7:30pm	--	--
Thu 15	@ Minnesota	7:00pm	--	--
Sat 17	Sacramento	7:30pm	--	--
Tue 20	@ Milwaukee	7:00pm	--	--
Wed 21	@ New York	6:30pm	--	--
Fri 23	Toronto	7:30pm	--	--
Sun 25	@ Detroit	11:30am	--	ABC
Tue 27	Indiana	7:30pm	--	--
Thu 29	New Orleans	7:30pm	--	--
Sat 31	@ Denver	8:00pm	--	--

**Footwear**

**SPURS POLL**  
 Is it harder to win a championship or defend a championship?  
☐ Win a championship  
☐ Defend a championship  
 Submit

**ACCOUNT MANAGER**  
**SEASON TICKET HOLDER LOGIN**  
 Account ID or Email Address:  
 Password:  
 LOGIN  
 Forgot Password

**TICKET EXCHANGE**  
 BUY TICKETS FROM SEASON TICKET HOLDERS

Lester has arranged for tickets. If you want to go to the game, please let Sonya know if you need one or two tickets.

## TOOELE COUNTY

Description	Address	Year_Built	Square_Feet	Stories	Construction	Flood_Zone	Boiler	Building_Value	Contents_Value	Computer_Value	Misc_Property
1 Storage #406	345 Airport Apron, Wendover, UT 84083	0	0	0	frame	C		90,000	0	0	0
2 Airport (WC)	PO Box 159, Wendover, UT 84083	0	0	0	frame	C		0	0	0	0
3 Hanger #1804	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		94,800	0	0	0
4 Hanger #1808	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
5 Hanger #1809	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		30,000	0	0	0
6 Hanger #1852	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
7 Hanger #1860	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
8 Hanger #2219	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		393,750	0	0	0
9 Hanger #2224	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		393,750	0	0	0
10 Hanger #2629	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
11 Hanger #2628	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
12 Hanger #2604	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
13 Hanger #2613	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
14 Hanger #2618	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
15 Wendover, UT 84083	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
16 Hanger #2606	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
17 Hanger #2612	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
18 Hanger #2617	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
19 Hanger #2621	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
20 Hanger #2626	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
21 Hanger #2631	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
22 Hanger #2638	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
23 Hanger #2658	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
24 Hanger #2601	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
25 Hanger #2610	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
26 Hanger #2600	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
27 Hanger #2609	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
28 Hanger #2624	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
29 Hanger #2646	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
30 Hanger #2401	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
31 Hanger #2402	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
32 Hanger #2403	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
33 Hanger #2404	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
34 Hanger #2405	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
35 Hanger #2407	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
36 Hanger #2410	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
37 Hanger #2411	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
38 Hanger #2412	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
39 Hanger #2413	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
40 Hanger #2414	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
41 Hanger #2417	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
42 Hanger #2510	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
43 Hanger #2502	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
44 Hanger #2503	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
45 Hanger #2504	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0

# TOOELE COUNTY

Description	Address	Year_Built	Square_Feet	Stories	Construction	Flood_Zone	Boiler	Building_Value	Contents_Value	Computer_Value	Misc_Property
46 Hanger #2505	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
47 Hanger #2506	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
48 Hanger #2511	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
49 Hanger #2512	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
50 Hanger #2513	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
51 Hanger #2514	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
52 Hanger #406	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		90,000	0	0	0
53 Hanger #432	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		90,000	0	0	0
54 Hanger #807	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		94,800	0	0	0
55 Hanger #819	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		94,800	0	0	0
56 Hanger #844	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		94,800	0	0	0
57 Hanger #1819	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
58 Hanger #2515 - NCO Club	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		120,000	0	0	0
59 Hanger #2636	Wendover Airport, Wendover, UT 84083	0	0	0	frame	C		60,000	0	0	0
								<b>4,406,700</b>			

## **AGENDA ITEM SUMMARY**

### ***Item Description***

Approve UCIP Records Retention Joint Policy for submittal to Division of State Archives.

### ***Background, Discussion***

The Division of State Archives has template records retention schedules for counties. However, UCIP is unique and we are required to submit any proposed retention schedule to Archives for approval. The attached policy creates four categories of records:

1. Multiline claims records
2. Workers' Compensation claims records
3. Underwriting records-UCIP coverages
4. Underwriting records-agency placements for members
5. Financial records
6. Coverage documents or insurance policies
7. Personnel records
8. Loss prevention records

### ***Recommendation***

Staff recommends approval of the proposed UCIP Records Retention Joint Policy.

**JOINT POLICY**  
**UCIP RECORDS RETENTION**

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The following establishes categories of records and a records retention policy for UCIP staff to follow in the efficient management of UCIP records. The destruction of any records must be approved in advance by the UCIP Board of Trustees and the Division of State Archives.

Multiline Claims Records: All records associated with claims made against members and referred to UCIP. All closed claims with no recorded activity after 7 years may be destroyed.

Workers' Compensation Claims Records: Medical only claims with no recorded activity after 5 years may be destroyed. Indemnity claims are to be kept until 3 years after the death of the claimant.

Underwriting Records-UCIP Coverages: These records are to be maintained for 5 years following the close of an underwriting period.

Underwriting Records-Agency Placements for Members: These records are to be maintained for 5 years following the expiration date of the policy.

UCIP Financial Records: All financial records will be maintained for 7 years.

Coverage Documents or Insurance Policies: All coverage agreements and/or insurance policies of an occurrence basis will be maintained in perpetuity. Claims-made coverage documents and/or insurance policies will be maintained for 10 years following the expiration of any tail coverage or an extended reporting period.

Personnel Records: UCIP will maintain records of all personnel for 7 years following the date of the employee's termination.

Loss Prevention Records: All loss prevention records will be maintained for 5 years. This will include records of inspections, training, recommendations to members, and activities related to incentive programs.



Utah Counties Insurance Pool  
*Serving Counties Since 1992*

## JOINT POLICY CONFLICT OF INTEREST

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The Utah Counties Insurance Pool, (hereinafter referred to as "UCIP"), recognizes that the various members of the Board of Trustees and the Chief Executive Officer for the ~~Multi-line UCIP~~ bring to the UCIP a number of perspectives and interests that are created by the nature of the elective and appointive offices which they hold in their respective counties. ~~The UCIP~~ recognizes that the members of the Board of Trustees and the Chief Executive Officer, accordingly, need a benchmark, criterion or standard against which to balance the competing interest they represent.

This policy ~~is an attempt on behalf of the UCIP to provide~~ guidelines to the members of the Board of Trustees and the Chief Executive Officer regarding conflicts of interest. It is the intention of the Joint Policy Committee that this policy would mesh with the Joint Policy on Board Member and Chief Executive Officer Responsibility and would provide practical guidance to ~~Board Members~~ Trustees and the Chief Executive Officer in fulfilling their responsibilities as ~~Board Members~~ Trustees or Chief Executive Officer.

1. ~~Board Members~~ Trustees and the Chief Executive Officer shall not request, receive, or accept a gift or loan for themselves or another if:
  - a. it tends to influence the ~~Board Members~~ Trustees or the Chief Executive Officer in the discharge of his or her official acts as a ~~Board Member~~ Trustee or Chief Executive Officer; or
  - b. she/he, within two years, has been involved in any official act directly affecting the donor or lender or knows that he/she will be involved in any official act directly affecting the donor or lender in connection with his or her membership on the Board or as the Chief Executive Officer.
2. The prohibition set forth in Section 1 above shall not apply to:
  - a. an occasional nonpecuniary gift, insignificant in value;
  - b. an award publicly presented in recognition of public service;
  - c. a commercially reasonable loan made in the ordinary course of business by an institution authorized by the laws of the state to engage in the business of making loans; or
  - d. a political campaign contribution, provided that such gift or loan is actually used in a political campaign and is subject to Utah law regarding such gifts or loans.



Utah Counties Insurance Pool  
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Conflict of Interest

Page 2

3. ~~Board Members~~ Trustees shall disqualify themselves from participating in any official action of the Board that affects a business in which that ~~Board Member~~ Trustee has a financial interest as defined in Sections 67-16-8 and 67-16-9 Utah Code Annotated 1953 as amended.
4. ~~Board Members~~ Trustees shall not acquire a financial interest at a time when they believe or have reason to believe that it will be directly affected by their official action on the Board.
5. ~~Board Members~~ Trustees and the Chief Executive Officer shall not use or divulge to any person confidential information acquired by virtue of their membership on, or participation with, the Board for their or another's private gain. Confidential information for the purpose of this paragraph shall be defined as all information disclosed or discussed in any executive session of the Board and any information disclosed or discussed in any meeting of the Board which is confidential under law, statute or practice and which is otherwise not available to the public.
6. The Chief Executive Officer of the UCIP and each ~~Board Member~~ Trustee shall complete a disclosure form provided by the UCIP at the first meeting of the Board during each fund year. That completed form shall affirm the person's awareness of this policy statement and either state that no described conflicts exist, or make all required disclosures.
7. The information on the disclosures, except for the valuations attributed to the reported interests, shall be made available by the Secretary of the Board for inspection by any UCIP member county representative. The valuation shall be confidential for all purposes except for proceedings for violation of the disclosure requirement of this policy.
8. Regarding possible conflicts of interest involved in discussing claims and/or litigation arising from claims referred to the Board of Trustees from the UCIP claims department and/or the UCIP Litigation Management Committee:
  - a. a Trustee from the defending county will excuse himself/herself from the room during the discussion of the claim, and;
  - b. proceedings of meetings closed for discussion of litigation are confidential.

# Utah Counties Insurance Pool Payments

December 17, 2004 - February 17, 2005

Type	Date	Num	Name	Memo	Split	Amount
<b>WF-Expense</b>						
Check	6/27/2005	VISA	Wells Fargo	Account Number: 4856 2002 0789 0792	-SPLIT-	-273.81
Check	6/27/2005	VISA	Wells Fargo	Account Number: 4856 2002 0646 9796	-SPLIT-	-448.20
Check	6/27/2005	VISA	Wells Fargo	Account Number: 4856 2002 0633 9635	-SPLIT-	-862.24
Check	6/27/2005	VISA	Wells Fargo	Account Number: 4856 2002 0646 9788	-SPLIT-	-1,343.90
Liability Check	6/29/2005		QuickBooks Payroll Service	Created by Payroll Service on 06/27/2005	-SPLIT-	-10,966.42
Liability Check	6/29/2005		United States Treasury	87-0495792	-SPLIT-	-3,644.62
Paycheck	6/30/2005		Brody S. Parker	Direct Deposit	-SPLIT-	0.00
Paycheck	6/30/2005		Charmaine G. Green	Direct Deposit	-SPLIT-	0.00
Paycheck	6/30/2005		Korby M. Siggard	Direct Deposit	-SPLIT-	0.00
Paycheck	6/30/2005		Lester J. Nixon	Direct Deposit	-SPLIT-	0.00
Paycheck	6/30/2005		Mark W. Brady	Direct Deposit	-SPLIT-	0.00
Paycheck	6/30/2005		Shelley Peck	Direct Deposit	-SPLIT-	0.00
Paycheck	6/30/2005		Sonya J. White	Direct Deposit	-SPLIT-	0.00
Liability Check	6/30/2005		Nationwide Retirement Solutions	Entity: 644013	-SPLIT-	-2,917.48
Liability Check	7/12/2005		United States Treasury	87-0495792	-SPLIT-	-3,676.52
Liability Check	7/14/2005		QuickBooks Payroll Service	Created by Payroll Service on 07/11/2005	-SPLIT-	-11,039.86
Paycheck	7/15/2005		Brody S. Parker	Direct Deposit	-SPLIT-	0.00
Paycheck	7/15/2005		Charmaine G. Green	Direct Deposit	-SPLIT-	0.00
Paycheck	7/15/2005		Korby M. Siggard	Direct Deposit	-SPLIT-	0.00
Paycheck	7/15/2005		Lester J. Nixon	Direct Deposit	-SPLIT-	0.00
Paycheck	7/15/2005		Mark W. Brady	Direct Deposit	-SPLIT-	0.00
Paycheck	7/15/2005		Shelley Peck	Direct Deposit	-SPLIT-	0.00
Paycheck	7/15/2005		Sonya J. White	Direct Deposit	-SPLIT-	0.00
Liability Check	7/18/2005	2969	Utah State Tax Commission	Z68319	-SPLIT-	-4,316.63
Check	7/18/2005	2970	Marsh USA Risk & Insurance Services	Invoice Number: 326461	-SPLIT-	-2,265.00
Check	7/18/2005	2971	Utah Safety Council	Invoice Number: 00035	Loss Control / Training	-318.00
Check	7/18/2005	2972	Civic Research Institute	Order Number: 1524721-R1	Telephone	-169.95
Check	7/18/2005	2973	Verizon Wireless	Invoice Number: 1957078320	Telephone	-66.46
Check	7/18/2005	2974	Verizon Wireless	Invoice Number: 1959938163	Telephone	-62.57
Check	7/18/2005	2975	Verizon Wireless	Invoice Number: 1960230481	Telephone	-91.77
Check	7/18/2005	2976	Verizon Wireless	Invoice Number: 1959938162	Telephone	-38.17
Check	7/18/2005	2977	Thanksgiving Point	December 1 Event	Loss Control / Training	-500.00
Check	7/18/2005	2978	Qwest	Account Number: 801-293-3098-606B	Telephone	-266.91
Check	7/18/2005	2979	Huddard Floral Company	Account Number: 202251	Exhibiting & Sponsorship	-63.90
Check	7/18/2005	2980	Marsh USA Risk & Insurance Services	Invoice Number: 326392	Consulting Fee	-40,000.00
Check	7/18/2005	2981	Mountain View Software	Invoice Number: 12924	Information Technology	-1,800.00
Check	7/18/2005	2982	Marsh USA Risk & Insurance Services	Invoice Number: 326288	Bonds	-1,024.00
Liability Check	7/18/2005	2983	Utah Retirement Systems	Unit No: 864 (June 2005)	-SPLIT-	-7,193.48
Check	7/18/2005	2984	PEHP-LTD	Coverage Period: June 2005	-SPLIT-	-186.89
Check	7/18/2005	2985	A La Carte Catering	Invoice Numbers: 2376	Staff Medical Insurance	-192.00
Check	7/18/2005	2986	Steven Wall	Mileage Reimbursement	Board Expense	-133.65
Check	7/18/2005	2987	Kay Blackwell	Mileage Reimbursement	Board Expense	-153.90
Check	7/18/2005	2988	Dan McConkie	Mileage Reimbursement	Board Expense	-24.71
Check	7/18/2005	2989	Lynn Lemon	Mileage Reimbursement	Board Expense	-72.90
Check	7/18/2005	2990	Kenneth Bischoff	Mileage Reimbursement	Board Expense	-36.45
Check	7/18/2005	2991	Jerry Grover	Mileage Reimbursement	Board Expense	-40.50
Check	7/18/2005	2992	Kent Sundberg	Mileage Reimbursement	Board Expense	-20.49
Check	7/18/2005	2993	Steve Baker	Customer Number: 1576.0 (AUG)	-SPLIT-	-6,359.65
Liability Check	7/18/2005	2994	Utah Local Governments Trust	Invoice Number: 2095	-SPLIT-	-1,393.50
Check	7/18/2005	2995	TCNS, Inc.	Invoice Number: 9922253781-5	Office Supplies	-287.16
Check	7/18/2005	2996	New England Business Service, Inc.	Conference Tuesday Lunch Sponsorship	Loss Control / Training	-1,500.00
Check	7/18/2005	2997	Utah Sheriff's Association			

# Utah Counties Insurance Pool Payments

December 17, 2004 - February 17, 2005

Type	Date	Num	Name	Memo	Split	Amount
Check	7/18/2005	2998	Lester J. Nixon	Reimbursable Expenses	-SPLIT-	-140.7
Check	7/18/2005	2999	Marsh USA Risk & Insurance Services	Invoice Number: 326508	Airport Liability	-1,750.0
Check	7/18/2005	3000	UT State Board Continuing Legal Education	CLE Fees (10 attorneys, 9 hours)	-SPLIT-	-135.0
Check	7/26/2005	VISA	Wells Fargo	Account Number: 4856 2002 0646 9796	-SPLIT-	-2,889.1
Check	7/26/2005	VISA	Wells Fargo	Account Number: 4856 2002 0646 9788	-SPLIT-	-4,356.6
Check	7/26/2005	VISA	Wells Fargo	Account Number: 4856 2002 0633 9635	-SPLIT-	-1,095.6
Check	7/26/2005	VISA	Wells Fargo	Account Number: 4856 2002 0789 0792	-SPLIT-	-389.2
Liability Check	7/28/2005		United States Treasury	87-0495792	-SPLIT-	-3,660.9
Liability Check	7/28/2005		Nationwide Retirement Solutions	Entity: 644013	-SPLIT-	-2,926.4
Liability Check	7/29/2005		QuickBooks Payroll Service	Created by Payroll Service on 07/27/2005	-SPLIT-	-10,978.5
Paycheck	7/31/2005		Brody S. Parker	Direct Deposit	-SPLIT-	0.00
Paycheck	7/31/2005		Charmaine G. Green	Direct Deposit	-SPLIT-	0.00
Paycheck	7/31/2005		Korby M. Sigard	Direct Deposit	-SPLIT-	0.00
Paycheck	7/31/2005		Lester J. Nixon	Direct Deposit	-SPLIT-	0.00
Paycheck	7/31/2005		Mark W. Brady	Direct Deposit	-SPLIT-	0.00
Paycheck	7/31/2005		Shelley Peck	Direct Deposit	-SPLIT-	0.00
Paycheck	7/31/2005		Sonya J. White	Direct Deposit	-SPLIT-	0.00
Liability Check	8/5/2005	3001	Utah Retirement Systems	Unit No: 864 (July 2005)	-SPLIT-	-7,219.4
Check	8/5/2005	3002	PEHP-LTD	Coverage Period: July 2005	Staff Medical Insurance	-187.6
Check	8/5/2005	3003	Print2day	Invoice Number: 522014	Printing	-139.0
Check	8/5/2005	3004	Brody S. Parker	Expense Reimbursement	-SPLIT-	-167.4
Check	8/5/2005	3005	Verizon Wireless	Invoice Number: 1964651675	Telephone	-71.4
Check	8/5/2005	3006	Brookholow	Invoice Number: GX016931	Incentives	-421.6
Check	8/5/2005	3007	Office Depot	Account Number: 35538769	Office Supplies	-238.1
Check	8/5/2005	3008	Office Depot	Account Number: 35538769	Office Supplies	-102.9
Check	8/5/2005	3009	Office Depot	Account Number: 35538769	-SPLIT-	-49.6
Check	8/5/2005	3010	Qwest	Account Number: 801-293-3098-606B	Telephone	-248.7
Check	8/5/2005	3011	Utah State Tax Commission	2004 Ford Explorer, License #: 120VGM	Automobile Expense	-28.0
Check	8/5/2005	3012	Sonya J. White	VOID: Reimbursable Expenses	-SPLIT-	0.00
Check	8/5/2005	3013	Lester J. Nixon	Reimbursable Expenses	-SPLIT-	-403.0
Check	8/5/2005	3014	Korby M. Sigard	Reimbursable Expenses	-SPLIT-	-474.12
Check	8/5/2005	3015	Mark W. Brady	Reimbursable Expenses	Staff Expenses	-120.0
Check	8/5/2005	3016	Davis County	Invoice Number: 2005-101	Exhibiting & Sponsorship	-500.0
Check	8/5/2005	3017	Sonya J. White	Reimbursable Expenses	-SPLIT-	-310.6
Liability Check	8/10/2005		QuickBooks Payroll Service	Created by Payroll Service on 08/09/2005	-SPLIT-	-10,978.60
Paycheck	8/11/2005		Brody S. Parker	Direct Deposit	-SPLIT-	0.00
Paycheck	8/11/2005		Charmaine G. Green	Direct Deposit	-SPLIT-	0.00
Paycheck	8/11/2005		Korby M. Sigard	Direct Deposit	-SPLIT-	0.00
Paycheck	8/11/2005		Lester J. Nixon	Direct Deposit	-SPLIT-	0.00
Paycheck	8/11/2005		Mark W. Brady	Direct Deposit	-SPLIT-	0.00
Paycheck	8/11/2005		Shelley Peck	Direct Deposit	-SPLIT-	0.00
Paycheck	8/11/2005		Sonya J. White	Direct Deposit	-SPLIT-	0.00
Liability Check	8/15/2005		United States Treasury	87-0495792	-SPLIT-	-3,660.92
Check	8/23/2005	3018	Charmaine G. Green	Reimbursable Expenses	-SPLIT-	-294.12
Check	8/23/2005	3019	Sutter Axland	Invoice Numbers: 1268714	1099 Nonemployee Comp...	-38.06
Check	8/23/2005	3020	Utah Chapter of PFIMA	October 12 Golf Tourney Sponsorship	Exhibiting & Sponsorship	-300.00
Check	8/23/2005	3021	FedEx	Invoice Number: 5-513-83244	Postage	-5.70
Check	8/23/2005	3022	Verizon Wireless	Invoice Number: 1967535769	Telephone	-32.64
Check	8/23/2005	3023	Verizon Wireless	Invoice Number: 1967535768	Telephone	-35.34
Check	8/23/2005	3024	Verizon Wireless	Invoice Number: 1967832331	Telephone	-67.55
Check	8/23/2005	3025	Print2day	Invoice Number: N/A	Printing	-169.18
Check	8/23/2005	3026	Christensen & Jensen	Invoice Number: 40788	-SPLIT-	-391.50
Liability Check	8/23/2005	3027	Utah Local Governments Trust	Customer Number: 1576.0 (SEPT)	-SPLIT-	-6,335.82

# Utah Counties Insurance Pool Payments

December 17, 2004 - February 17, 2005

Type	Date	Numb	Name	Memo	Split	Amount
Check	8/23/2005	3028	Agile Studios	Invoice Number: 20050062	Information Technology	-1,080.00
Check	8/23/2005	3029	CodeCo Law Publishers	Invoice Number: A53376	Dues / Subscriptions	-205.00
Check	8/23/2005	3030	Print2day	Invoice Number: 522342	Printing	-117.04
Check	8/29/2005	VISA	Wells Fargo	Account Number: 4856 2002 0789 0792	-SPLIT-	-628.73
Check	8/29/2005	VISA	Wells Fargo	Account Number: 4856 2002 0646 9796	Information Technology	-169.49
Check	8/29/2005	VISA	Wells Fargo	Account Number: 4856 2002 0646 9788	-SPLIT-	-2,774.60
Check	8/29/2005	VISA	Wells Fargo	Account Number: 4856 2002 0633 9635	-SPLIT-	-534.73
Total WF-Expense						-170,639.71
<b>WF-Work Comp Expense</b>						
Check	7/18/2005	0061	Alternative Service Concepts, LLC	Invoice Number: 0010021-IN	Third Party Administrator ...	-10,739.83
Check	7/18/2005	0062	BRF - Alternative Service Concepts	Voucher Number: 1547	Third Party Administrator ...	-5,419.83
Check	8/1/2005	0063	Alternative Service Concepts, LLC	Invoice Number: 0010057-IN	Third Party Administrator ...	-22,837.23
Check	8/1/2005	0064	Pfeiffer Consulting Group, LLP	Invoice No. 2005-2	Professional Fees	-1,500.00
Check	8/8/2005	65	Pfeiffer Consulting Group, LLP	Invoice No. 2005-3	Professional Fees	-1,500.00
Check	8/8/2005	66	Utah Labor Commission	Lester Nixon 9/20/05 Seminar Tuition	Staff Expenses	-40.00
Check	8/8/2005	67	BRF - Alternative Service Concepts	Voucher Number: 1670	Third Party Administrator ...	-1,440.84
Total WF-Work Comp Expense						-43,477.73
<b>TOTAL</b>						<b>-214,117.44</b>





Utah Counties Insurance Pool  
*Serving Counties Since 1992*

## FINANCIAL STATEMENTS

Month Ending June 30, 2005

To the Board of Trustees:

I have compiled the accompanying, in-house prepared, unaudited account balances arising from cash transactions of the Utah Counties Insurance Pool as of 06/30/05 and accompanying notes to basic financial statements.

Sonya White  
UCIP Executive Assistant  
801-293-3098  
[sonya@ucip.utah.gov](mailto:sonya@ucip.utah.gov)

Reviewed this 18 day of July, 2005

By: Lester Nixon

## UTAH COUNTIES INSURANCE POOL

Balance Sheet  
June 30, 2005 and 2004

	2005	2004
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Cash &amp; Cash Equivalents</b>		
PTIF	529,192.05	2,061,442.94
UBS Securities	2,638.05	0.00
Expense	22,301.64	22,237.81
Claims	7,578.37	2,488.90
HRA	5,073.34	6,511.58
WF Restricted	28,227.87	5.97
WF Securities	277,094.56	167,558.06
WC Expense	20,172.60	2,147.66
WC Claims	5,213.76	23,703.45
Total Cash	897,492.24	2,286,096.37
<b>Receivables</b>		
Accounts Receivable	33,227.98	215,370.26
Total Receivables	33,227.98	215,370.26
<b>Investments</b>		
Restricted	1,113,750.67	1,112,962.09
Restricted CRL Capital	284,654.00	200,072.00
Unrestricted	8,587,662.29	6,891,565.00
Total Investments	9,986,066.96	8,204,599.09
<b>Fixed Assets</b>		
Capital	121,809.08	68,716.34
Depreciation	-34,491.00	-5,840.00
Total Fixed	87,318.08	62,876.34
Total Assets	11,004,105.26	10,768,942.06
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
IBNR Reserves	2,311,236.00	3,021,722.47
Loss Reserves	1,283,025.15	
Payroll Liabilities	10,790.69	13,093.75
Sick Leave Payable	16,634.63	18,733.00
Vacation Payable	7,875.15	4,228.00
Total Current	3,629,561.62	3,057,777.22
<b>Equity</b>		
Restricted Building	114,470.00	103,849.93
Restricted Automobile	15,094.00	48,420.00
Unrestricted	7,244,979.64	7,558,894.91
Total Long Term	7,374,543.64	7,711,164.84
Total Liabilities	11,004,105.26	10,768,942.06

CASH BASIS

**UTAH COUNTIES INSURANCE POOL**  
**Multiline Budget to Actual Comparison**  
**For the Month Ending June 30, 2005**

	Budget	Y-T-D Actual	\$ Over Budget	% of Budget
<b>Revenue</b>				
Premiums Written	4,176,336.00	4,176,336.00	0.00	100.00%
Risk Management Program Credit	-156,550.00	-156,549.00	1.00	100.00%
Investment Income	300,000.00	173,895.83	-126,104.17	57.97%
<b>Total Revenue</b>	<b>4,319,786.00</b>	<b>4,193,682.83</b>	<b>-126,103.17</b>	<b>97.08%</b>
<b>Losses and Loss Expenses</b>				
Losses	2,397,344.00	995,031.74	-1,402,312.26	41.51%
Reinsurance	1,036,971.00	1,036,971.16	0.16	100.00%
<b>Total Loss Expenses</b>	<b>3,434,315.00</b>	<b>2,032,002.90</b>	<b>-1,402,312.10</b>	<b>59.17%</b>
<b>Administration Expenses</b>				
Accounting	6,700.00	210.20	-6,489.80	3.14%
Actuarial Analysis	4,000.00	0.00	-4,000.00	0.00%
Capitalization Costs - CRL	55,660.00	55,660.00	0.00	100.00%
<b>Total Administration</b>	<b>66,360.00</b>	<b>55,870.20</b>	<b>-10,489.80</b>	<b>84.19%</b>
<b>Total Losses and Expenses</b>	<b>3,500,675.00</b>	<b>2,087,873.10</b>	<b>-1,412,801.90</b>	<b>59.64%</b>
<b>Transfer to Administration Budget</b>	<b>819,111.00</b>	<b>341,296.25</b>	<b>-477,814.75</b>	<b>41.67%</b>
<b>Equity / Reserves</b>				
Automobile	15,094.00			
Building Debt Service	86,300.00			
Building Repairs & Replacement	28,170.00			
Capital (CRL)	205,245.00			
<b>Total Designated Reserves</b>	<b>334,809.00</b>			

**Note:**  
This year is 50.00% complete

CASH BASIS

**UTAH COUNTIES INSURANCE POOL**  
**Workers' Compensation Budget to Actual Comparison**  
**For the Month Ending June 30, 2005**

	Budget	Y-T-D Actual	\$ Over Budget	% of Budget
<b>Revenue</b>				
Premiums Written	1,627,209.00	1,627,336.00	127.00	100.01%
Investment Income	12,000.00	6,000.00	-6,000.00	50.00%
Total Revenue	1,639,209.00	1,633,336.00	-5,873.00	99.64%
<b>Losses and Loss Expenses</b>				
Losses	975,511.00	99,337.98	-876,173.02	10.18%
Reinsurance	269,022.00	269,022.00	0.00	100.00%
Third Party Administrator	150,000.00	51,123.43	-98,876.57	34.08%
Total Loss Expenses	1,394,533.00	419,483.41	-975,049.59	30.08%
<b>Administration Expenses</b>				
Accounting	8,000.00	210.20	-7,789.80	2.63%
Actuarial Analysis	4,000.00	0.00	-4,000.00	0.00%
Capitalization Costs - CRL	27,287.00	27,287.00	0.00	100.00%
Self-Insurer's Bond	37,500.00	37,500.00	0.00	100.00%
Self-Insurer's Tax	0.00	0.00	0.00	0.00%
Total Administration	76,787.00	64,997.20	-11,789.80	84.65%
Total Losses and Expenses	1,471,320.00	484,480.61	-986,839.39	32.93%
Transfer to Administration Budget	167,889.00	69,953.75	-97,935.25	41.67%
<b>Equity / Reserves</b>				
Capital (CRL)	79,409.00			
Total Equity	79,409.00			

**Note:**  
This year is 50.00% complete

CASH BASIS

**UTAH COUNTIES INSURANCE POOL**  
Administration Budget to Actual Comparison  
For the Month Ending June 30, 2005

	Budget	Y-T-D Actual	\$ Over Budget	% of Budget
<b>Transfers</b>				
Multiline	819,111.00	409,555.50	-409,555.50	50.00%
Workers' Compensation	167,889.00	83,944.50	-83,944.50	50.00%
Total Transfers	987,000.00	493,500.00	-493,500.00	50.00%
<b>Administration Expenses</b>				
Automobile Expense	9,500.00	3,578.37	-5,921.63	37.67%
Automobile Reserve	25,000.00	8,406.00	-16,594.00	33.62%
Bank Charges	300.00	0.00	-300.00	0.00%
Board Expense	40,000.00	19,368.57	-20,631.43	48.42%
Building Maintenance & Repairs	25,000.00	4,944.44	-20,055.56	19.78%
Consulting Fee	60,000.00	60,000.00	0.00	100.00%
Copying Costs	1,200.00	1,051.53	-148.47	87.63%
Dues / Subscriptions	4,500.00	1,755.28	-2,744.72	39.01%
Exhibiting & Sponsorship	17,500.00	5,175.84	-12,324.16	29.58%
Fees & Licensing	1,200.00	0.00	-1,200.00	0.00%
Incentives	7,000.00	1,586.60	-5,413.40	22.67%
Information Technology	25,000.00	8,525.00	-16,475.00	34.10%
Land Use Hotline	25,000.00	931.11	-24,068.89	3.72%
Lease Purchase	70,000.00	0.00	-70,000.00	0.00%
Lobbying & Legislative Tracking	10,000.00	10,000.00	0.00	100.00%
Loss Control / Training	40,000.00	15,228.29	-24,771.71	38.07%
Office Equipment	7,000.00	699.04	-6,300.96	9.99%
Office Insurance	5,116.00	5,492.00	376.00	107.35%
Office Supplies	7,500.00	2,887.78	-4,612.22	38.50%
Postage	3,000.00	1,369.54	-1,630.46	45.65%
Printing	5,000.00	369.96	-4,630.04	7.40%
Professional Fees	22,661.00	14,814.81	-7,846.19	65.38%
Staff Expenses	35,000.00	15,549.52	-19,450.48	44.43%
Staff Medical Insurance	70,497.00	45,217.23	-25,279.77	64.14%
Staff Payroll Expenses	26,911.00	15,903.12	-11,007.88	59.10%
Staff Retirement	69,630.00	37,041.04	-32,588.96	53.20%
Staff Salaries	367,485.00	178,593.66	-188,891.34	48.60%
Telephone	6,000.00	2,620.06	-3,379.94	43.67%
Total Administration	987,000.00	461,108.79	-525,891.21	46.72%

**Note:**  
This year is 50.00% complete

## **UTAH COUNTIES INSURANCE POOL**

### **Notes to Basic Financial Statements**

#### **Reserves for Losses and Loss Adjustment Expenses**

The reserves for losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes that amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

#### **Investments**

Investments are comprised of various U.S. Government securities. Investments in U.S. Government securities for June 30, 2005 and 2004 consisted of held-to-maturity securities.

Held-to-maturity securities are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using the effective interest method over the period to maturity.

The investment in County Reinsurance, Limited (CRL) is valued using the equity method of accounting. Under the equity method, the Pool recognizes its share in the net earnings or losses of the company as they occur rather than as dividends are received.

#### **Restricted Investments**

The investment that is restricted for Workers' Compensation is a bond that is pledged for the Workers' Compensation self-insurers' bond that the Pool was required to post with the Labor Commission to receive their self-insurers' permit.

The investment that is restricted for CRL is equity in CRL that the Pool may not access until it has been a member of CRL for at least five years. The Pool's membership in CRL began January 1, 2004. The equity is capital that CRL is required to maintain under Vermont law.

#### **Capital Assets**

Capital assets are defined by the Pool as assets with an initial individual cost of more than \$500. Capital assets are stated at cost less accumulated depreciation. Depreciation on furniture, equipment and electronic data processing equipment is provided over the estimated useful lives of the assets on the straight-line method. Useful lives vary from three to five years.

Maintenance and repairs, which do not materially extend the useful lives and minor replacements, are expensed as incurred.

#### **Compensated Absences**

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected as compensated absences payable. The amounts accrued as of June 30, 2005 and 2004 was **\$24,509.78** and **\$22,961.00**, respectively.

### **Investments in Utah Public Treasurers' Investment Fund (PTIF)**

The Public Treasurers' Investment Fund (PTIF) is a pooled investment fund enabling public agencies to benefit from the higher yields offered on large denomination securities. The PTIF is similar in nature to a money market fund, but is subject to the Money Management Act and Rules of the Money Management Council. The PTIF invests in corporate debt, U.S. Agency notes, certificates of deposit and commercial paper. The maximum final maturity of any security invested in by the PTIF is limited to five years. The maximum weighted average life of the portfolio is limited to 90 days. There is no maturity date on an insurer's investment in the PTIF. PTIF deposits are not insured or otherwise guaranteed by the State of Utah. Participants in the PTIF pay an administrative charge on an annual basis based on the average account balance. The PTIF is operated as a service to local governments and does not generate a profit to the Utah State Treasurer. The investment in PTIF totaled **\$529,192.05** and \$2,061,442.94 as of June 30, 2005 and 2004, respectively.

### **Reinsurance**

The Pool has purchased specific and aggregate reinsurance coverage. The agreements provide for liability insurance in excess of a \$250,000 self-insured retention and property and crime insurance in excess of a \$250,000 self-insured retention up to an aggregate loss limit. The Pool has purchased reinsurance to protect against losses above these limits.

Effective 2003, the Pool has purchased only specific reinsurance coverage. The agreement provides for liability insurance in excess of a \$250,000 self-insured retention and property and crime insurance in excess of a \$250,000 self-insured retention.

Estimated claims loss liabilities are stated net of estimated losses applicable to reinsurance ceded to other insurance companies. However, the Pool is contingently liable for those amounts in the event such companies are unable to pay their portion of the claims.

### **Unsecured Reinsurance Recoverables**

The Company does not have an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with and individual reinsurers, authorized or unauthorized, that exceeds 3% of the Pool's policyholder surplus.

### **Reinsurance Recoverable in Dispute**

The Company does not have any disputed balances or uncollectible funds.

### **Statutory Limits – Workers' Compensation**

Effective 2004, the Pool reinsures Workers' Compensation to statutory limits about the \$300,000 self-insured retention. County Reinsurance, Limited (CRL) provides a layer of coverage \$1,700,000 excess of \$300,000 self-insured retention. Safety National reinsures to statutory limits above the \$2,000,000 provided by CRL.

### **Contingencies**

The Pool is subject to litigation from the settlement of claims contested in the normal course of business. The losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated unpaid loss and loss adjustment expense liabilities.

## Investments

The carrying amounts of investments and their fair values at June 30, 2005 and 2004 were as follows:

	2005			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government Bonds	\$ 6,529,759	\$ 53,016	\$ (75,838)	\$ 6,506,937
Restricted Government Bonds	\$ 1,113,751	\$ -	\$ (14,695)	\$ 1,099,056
Restricted Equity Investment	\$ 284,654	\$ -	\$ -	\$ 284,654
<b>Total Investments</b>	<b>\$ 7,928,164</b>	<b>\$ 53,016</b>	<b>\$ (90,533)</b>	<b>\$ 7,890,647</b>

	2004			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government Bonds	\$ 6,891,565	\$ 714	\$ (129,776)	\$ 6,762,503
Restricted Government Bonds	\$ 1,112,962	\$ -	\$ (11,900)	\$ 1,101,062
Restricted Equity Investment	\$ 200,072	\$ -	\$ -	\$ 200,072
<b>Total Investment</b>	<b>\$ 8,204,599</b>	<b>\$ 714</b>	<b>\$ (141,676)</b>	<b>\$ 8,063,637</b>



Utah Counties Insurance Pool  
*Serving Counties Since 1992*

**UCIP**  
**PLANNING**  
**DOCUMENT**

Begun on June 6-7, 2003  
Revised on June 3-4, 2004  
Revised on June 2-3, 2005

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## **PLAN**

Originally developed by the Utah Counties Insurance Pool Board of Trustees, the Business Plan is intended to provide direction for the Pool over the next five years. The Plan will be reviewed and updated by the Board as appropriate.

### **Mission Statement**

**UCIP is committed to meet members' needs for quality insurance at competitive, responsible, and stable cost, and to assist members with improving their risk management practices.**

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## **PRINCIPLES AND BELIEFS**

- **Coverage provided is a promise to pay.**
- **We look for ways to cover claims, not to deny them.**
- **To provide as broad coverage as prudence will allow.**
- **Coverage is open to Utah Counties and those County-related entities over which the County governing body exercises dominant control.**
- **Pool funds belong to the members.**
- **The Pool Board is trustee of the members' funds.**
- **We seek to maximize the value of funds but follow conservative fiscal practices.**
- **Business is conducted with integrity.**
- **The best interest of the Pool prevails, always.**
- **Consistent due diligence is given for all members and issues.**
- **Member input is sought and encouraged.**
- **Full disclosure in all communications.**
- **Services are responsive and respectful.**

## *Situational Analysis*

These are our assumptions about the future of UCIP, our Member Counties, and the populations served by our Members. We will monitor these assumptions to identify trends as they develop and needs as they arise so UCIP may respond appropriately.

### *Economic*

- Tight budgetary constraints on members.
- Increasing pressure from taxpayers to reduce taxes.
- We must be aware of the different economic dynamics between and among the urban, urbanizing, and rural areas of the state.

### *Political/Regulatory*

- Reduced funding available from State and Federal government
- Increasing number of federal and state mandated programs, causing increasing budgetary pressures on our members.
- UCIP needs to stay abreast of state and federal legislation and regulation.

### *Demographics*

- Aging of the post-World War II generation (birth years 1946-1964) will affect supply and demand of age-related services.
- Utah population is increasing and diversifying statewide.

### *Knowledge*

- Members rely on UCIP to inform them about risk management, legal trends, and best practices.
- Members like owning the Pool.
- Members look to UCIP to deliver new programs.

### *Social Values*

- Greater emphasis on the value of time.
- Need for customized “answers”.

### *Insurance and Pooling Industry*

- Increased potential for competition in 2005.
- Reinsurance market is loosening in 2004-2005.

### *Technology*

- Need ready and cost effective access to information
- Examine cost-effective alternatives to on-site meetings.
- Examine the latest innovations in training for cost effectiveness.
- Maintain attention on security.

### *Staff*

- Retain qualified staff.
- Need to support continuing education and personal growth.

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## Key Success Factors

Development of assumptions leads to emphasizing certain key factors for operations of the pool over the next 5 years.

- Focusing on customer needs and expectations.
- Providing efficient operations and service delivery.
- Assist individual counties with risk management training.
- Fair and equitable allocation of contribution.
- Broaden participation in the pool by all Utah Counties and appropriate related entities.
- The Pool is first choice for value in coverage and service.
- Define our relationship with UAC.
- Board members and staff pursue technical and skill development opportunities.
- Establish meaningful and profitable alliances, whenever feasible.
- Making UCIP products and services value-added for members, assuring excellence in a competitive marketplace.
- Effectively using technology to enhance efficiency and effectiveness in all areas.

## GOALS

1. **Determine permanent location of UCIP by November 1, 2005.**
2. **Explore employee benefits coverage for members and make decision by August 1, 2005.**
3. **Increase member participation in the Risk Management Program.**
4. **Provide training and education opportunities for members, Trustees, and staff. Explore alternative methods of delivering training to members.**
5. **Pursue replacement by Governor of official Protection and Advocacy System for advocacy of mental health patients.**

## ACTION PLAN

### Description

The Plan must be adaptable due to changing circumstances within and outside UCIP.

The goals developed are expanded to include:

**STRATEGIES**-Individual achievements targeted for short-term (less than 18 months) and long-term (18 months to 5 years) timeframes, not in order of priority

**PERFORMANCE INDICATORS**-Describing specific measurable actions that will be undertaken to carry out the strategies

**GOAL #1**

**Determine permanent location of UCIP by November 1, 2005.**

STRATEGIES

*Short-term*

1. Negotiate building sublease purchase agreement with UAC.
2. Determine cost of building out the basement at 5397 South Vine.
3. Study use and adequacy of building.

*Long-term*

1. Consider the effects of remaining at 5397 South Vine on UCIP assets and member relations.

PERFORMANCE INDICATORS

1. Perform market analysis to obtain comparables.
2. Evaluate lease/rent/purchase to determine rate of return.

**GOAL #2**

**Explore employee benefits coverage for members and make decision by August 31, 2005.**

STRATEGIES

*Short-term*

1. Explore partner opportunities with other providers.
2. Determine potential inventory of covered lives.

*Long-term*

1. Plan design and administration requirements.

PERFORMANCE INDICATORS

1. Prepare feasibility study by January 1, 2005.

**GOAL #3**

**Increase member participation and credits in the Risk Management Program.**

STRATEGIES

*Short-term*

1. Notify County Commissioners of 2004 results.
2. Work with Insurance Coordinators to maximize 2005 results.

*Long-term*

1. Within 5 years, bring average award to 70% per member.

PERFORMANCE INDICATORS

1. Increase qualifiers to 25 by 2006.
2. Bring average award to 70% by 2007.

**GOAL #4**

**Provide training and education opportunities for members, Trustees, and staff.  
Explore alternative methods of delivering training to members.**

STRATEGIES

*Short-term*

1. Examine Internet, CD, and DVD formats.
2. Involve the Personnel Committee.

*Long-term*

1. Analyze trainings effects on Pool loss experience.

PERFORMANCE INDICATORS

1. Deliver report by June 30, 2006.

**GOAL #5**

**Pursue replacement by Governor of official Protection and Advocacy System for advocacy of mental health patients.**

**STRATEGIES**

*Short-term*

1. Work with Governor to provide results of current system.

**PERFORMANCE INDICATORS**

1. Achieve change by January 1, 2006.



MARSH

August 2005



# United States Insurance Market Report

Second Quarter 2005

# Introduction

Marsh's Insurance-Market Report is published to keep clients informed of conditions rates, capacity, and coverage that have potential consequences for their risk management strategies.

This report was prepared based on information provided by Marsh's industry and global risk and specialty practices about market conditions primarily in the United States. For permission to reproduce this report, in part or in whole, or for other information about the report, please contact your Marsh client executive or local Marsh office.

Comments on renewal rates are based on surveys of specialists active in conducting renewal negotiations in a particular specialty area and are provided for general information only. Rate trends quoted are the typical range for an average risk profile, and significant variations are possible for any particular risk based on loss experience, risk exposure, and other conditions.

The information set forth herein represents Marsh's view of insurance-market conditions as of the date noted on the original document and subsequent postings. Marsh disclaims any duty to update the information set forth herein.

# Executive Summary

Two overarching themes pervade this second-quarter insurance-market report: softening rates and the looming expiration of the Terrorism Risk Insurance Act (TRIA).

On balance, the 2005 property/casualty (P&C) insurance and reinsurance markets continue to be more favorable for insureds. There does continue to be some pressure from prior years' loss reserves—particularly from casualty business written during the period from 1997 through 2000 and from asbestos and environmental (A&E) liabilities. Nonetheless, rates continue to soften. Furthermore, rising underwriting profitability, coupled with swelling investment income, allowed the insurance industry to report significant underwriting profits and net income. Industry capitalization grew by 4% from year-end 2004 to US\$411 billion, its largest on record. We caution our clients, however, to be mindful that a certain number of insurers fail each year, ending up in liquidation. The financial stability of your insurers remains of paramount importance.

The following are some of the highlights of the current state of the insurance market:

**Terrorism:** Perhaps the most significant factor is the imminent end of TRIA at midnight on December 31, 2005. If coverage is not extended—or if coverage is extended, but with significantly more stringent terms and conditions than the current Act—the lack or alteration of a government backstop will have a negative impact on the P&C insurance market.

**Casualty:** The casualty insurance market continues its gradual softening. Most insureds are experiencing rate reductions in the high single or low double-digit range. Reductions in the workers compensation and umbrella and excess liability lines are generally less significant than in primary general liability and automobile. Many liability and workers compensation policies are being written with endorsements that allow the insurer to increase the premium for terrorism coverage if TRIA lapses—with

no constraints on the additional premium that may be charged. Further, coverage availability beyond the end of 2005, in the absence of TRIA, is uncertain.

**Property:** The property insurance market remains competitive, with most insureds receiving rate reductions in the range of 7.5% to 15%. The extensive 2004 and early 2005 hurricane losses have not resulted in dramatic premium or deductible increases for windstorm coverage. Insurers have become more selective in their coastal property writings and are carefully modeling their hurricane (and California earthquake) accumulations. If Congress does not extend TRIA, many insurers will restrict or exclude coverage for terrorism as of the Act's expiration.

**Directors and officers liability:** The market for directors and officers (D&O) liability insurance remains generally favorable for most insureds, with rate reductions common for 2005 renewals. Insurers continue to demonstrate a willingness to negotiate all coverage terms and conditions, with coverage enhancements readily available.

# Property/Casualty Industry Overview

At the end of the second quarter of 2005, premium rates in the property and casualty marketplace continued to soften for many major lines of business. P&C insurers reported record net income and capitalization in 2004, and rating agency estimates for year-end 2005 results reflect the same positive outlook. In an industry with historical cycles of great magnitude, it is worthwhile examining a few key drivers behind the current softening market trend, namely, cash flow, investment composition and conditions, and quality of capital.

**Figure 1. Highlights: Property/Casualty 1Q 2005 vs. 2004**

	1Q 2005	1Q 2004	Change
Net Written Premium	US\$110.6	US\$109.2	+1.3%
Loss and LAE	US\$71.2	US\$70.3	+1.3%
Net UW Gain (Loss)	US\$6.8	US\$5.2	+31.8%
Net Inv. Income	US\$13.8	US\$9.7	+42.3%
<b>Net Income (a.t.)</b>	<b>US\$17.8</b>	<b>US\$13.5</b>	<b>+32.0%</b>
Surplus	US\$410.9	US\$368.7	+11.4%
Combined Ratio	92.3	93.3	-1.0 pts

Despite a slowing of premium growth, the U.S. property/casualty industry reported excellent results in the first quarter of 2005, with a combined ratio of 92.38%, the most profitable in recent history. The industry reported an underwriting gain of nearly US\$7 billion through March, 32% greater than reported in the prior year. With investment income rising over 42% to US\$13.8 billion, net after tax income was a healthy US\$17.8 billion, up from US\$13.5 billion in March 2004.

While rising underwriting profitability and a burgeoning investment income base allowed the industry to reap substantial after-tax profits, a lackluster stock market resulted in a US\$5.8 billion unrealized capital loss. Coupled

with a doubling of stockholder dividends to US\$4.1 billion, the industry's policyholders' surplus increase was reduced to US\$9.5 billion, a 27% reduction from the prior year period. Still, the industry's surplus stood at US\$411 billion as of March 2005.

According to A.M. Best, all sections of the industry performed well in the first quarter. Personal lines insurers posted a combined ratio of 90%, down from 91.4% in 2004. Commercial lines insurers reported a 92.5% combined ratio, a 3 percentage-point improvement from 2004, with 22 of the top 25 commercial lines insurers having profitable underwriting results. A.M. Best also noted commercial insurers historically have superior first quarters, as most reserve strengthening occurs in the third and fourth quarter. While the results are enviable, commercial premium growth is nonexistent. Direct premium volume was down 1%, while net fell 3% as insurers continue to expand their use of reinsurance

Reinsurance industry results were negatively affected by the loss-portfolio transaction by Berkshire Hathaway Group, which added US\$1.3 billion to losses or 10 points on the combined ratio. These results will deteriorate further in the year, as some major reinsurers have addressed the weaknesses in their loss-reserve positions.

## Positive Cash Flow Implications

Through hard and soft markets, the industry has reported a positive cash flow which improves liquidity and increases its investment portfolio in the short-term; however, when rates are inadequate insurers who write business to merely generate cash will suffer in the long-term. In 2004, which would be classified as a hard market, the industry reported an US\$86 billion cash flow from operations, up from US\$73 billion in 2003, as its net premiums written increased by 5% or US\$20 billion, while its net losses paid increased by only 1% or US\$2 billion. With premium rates not nearly

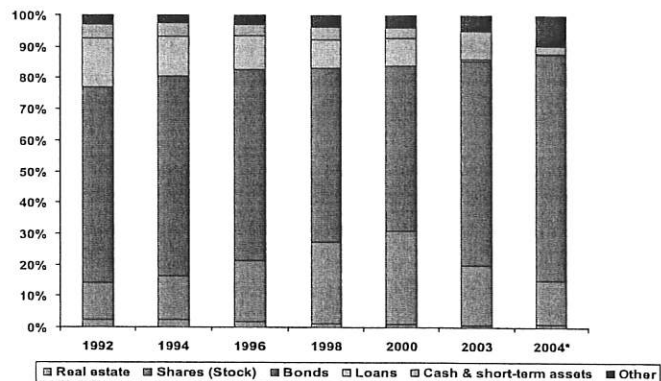
as low as they were at the nadir of the last soft insurance market and policyholders increasing their limits purchased, this positive cash flow is great and not in jeopardy of dissipating in the near future. In fact, in the first quarter of 2005, the industry reported record premium volume and a 42% increase in net investment income (per A.M. Best) implying even better cash flows in 2005.

Nonetheless, it should be remembered that in the past two soft insurance markets, the factors that compelled insurers to chase cash flow and insurance-market share were the same factors that veiled the industry's underwriting weaknesses, and their unveiling led to sharp premium rate increases and the demise of many an insurer. In the early 1980s, the villain was high interest rates, which helped insurers generate so much investment income that they abandoned underwriting principles. All went well while interest rates remained high. However, when interest rates dropped, so did the investment income, and the industry was stuck with terribly underpriced risks. The resulting extremely hard market corrected pricing but at a significant cost. In the mid to late 1990s, a combination of a burgeoning economy and strong financial markets, low catastrophe losses, and overly optimistic loss reserving led to a false sense of security. For now, the industry's pricing appears rational. However, as premium rates continue to fall, the industry can avoid unnecessarily sharp pricing cycles by maintaining underwriting discipline.

### Investment Profile – Continues To Be Conservative

Historically, the U.S. property/casualty insurance industry has maintained a relatively consistent and conservative investment profile. Perhaps this is because the insurers feel they take enough risk with their underwriting. Perhaps it is due to a fear of being downgraded by rating agencies or penalized by regulators if they invest too aggressively. Or perhaps it is because insurers believe they invest as fiduciaries, and therefore, it is not their money to lose. Regardless of the reason, this strategy has limited the industry's investment income and capital gains during boom years, but has protected it from overly speculative investments, overexposure to stock-market crashes, and the bursting of the tech bubble.

**Figure 2. US Insurers' Asset Allocation Becomes More Conservative**



Source: Swiss Re, Sigma No. 5/2002; 2005 FIC Fact Book, Insurance Information Institute.  
\*2004 Figures taken from Hightline Data Industry Aggregates & Averages

At year-end 2004, investment-grade bonds, unaffiliated stocks, and cash represented 73%, 15%, and 3% of the industry's investment portfolio, respectively. The industry's other generally riskier or less liquid investments were relatively minimal. Its affiliated investments at year-end 2004 were only 16% of surplus, while loans and real estate were less than 3% combined. Its unaffiliated stockholdings were but 36% of its surplus. This shows that while the industry does not avoid risk altogether, it takes risks with its own money, not with funds earmarked for policyholder claims. Moreover, the preponderance of secure fixed-interest investments provides the industry with a predictable stream of investment income that facilitates the matching of assets with liabilities, one of the cornerstones of an effective cash-management system.

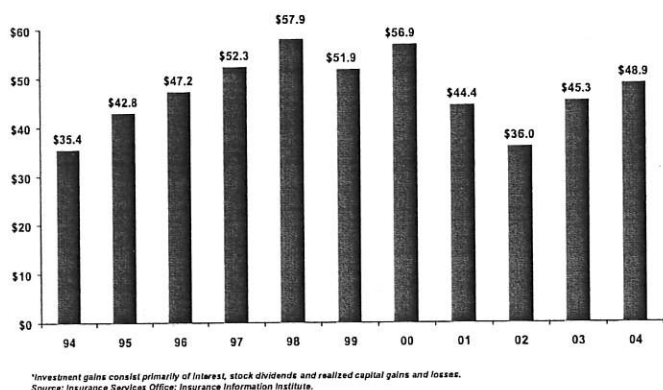
As interest rates remained near historic lows in the late 1990s and early in this century, insurers shortened the duration of their bond holdings to prepare for a rise in interest rates that appears finally to have started. The shortened durations had minimal impact on the industry's investment income. However, since more bonds will mature more often this way, the bonds can be rolled over into higher yielding instruments more quickly. Moreover, those insurers who need to sell bonds can do so at less of a discount in a rising-interest-rate environment for bonds maturing sooner.

The industry's investment strategy also provided it with a liquid balance sheet, crucial for the industry to respond to catastrophes and other large unforeseen losses. Its liquidity ratio at year-end 2004 was very good at 109%. Its quick liquidity ratio was not as good at 53%. However, this is mitigated by the industry's very positive cash flow, which was largely responsible for its 10% or US\$100 billion increase in invested assets in 2004.

## Investment Income – Lower Yields Do Not Appear to be Restraining Rate Softening

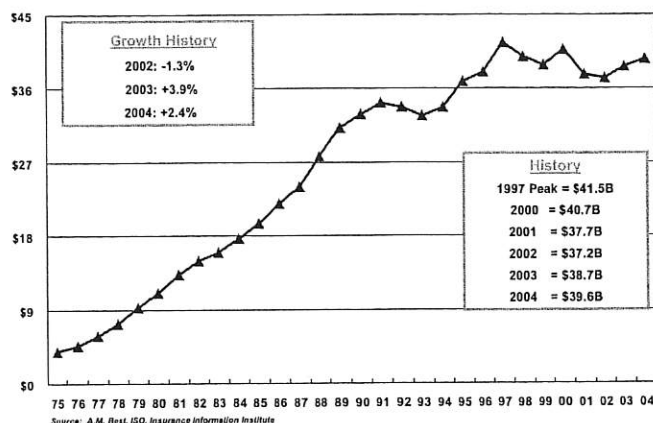
In a softening insurance market, investment income and realized gains become increasingly important. To keep the same level of profitability, investment gains must offset the decreased pricing of risks, assuming the frequency and magnitude of losses remains fixed. At year-end 2004, the P&C industry reported an underwriting profit for the first time in 25 years with a combined ratio of 98%, according to A.M. Best. If we assume a 10% decline in insurance rates in 2005, with all other factors remaining the same, then the imputed result would be a 10 percentage-point increase in the combined ratio to 108%, an underwriting loss. In 2004, investment income, according to A.M. Best, totaled 10% of net premium earned, thereby offsetting 10 percentage points of any underwriting loss. If all else is held constant and premium rates decrease by more than 12%, the industry would operate at a loss for the year. As noted in this report, many of the major P&C lines of business are seeing rate decreases ranging from 5% to 10%—even more in selected cases.

**Figure 3. 2005 Property/Casualty Insurance Industry Investment Gain Below Peak Levels**



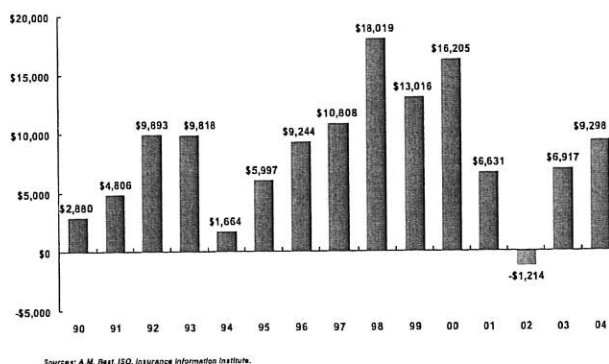
Despite reporting record levels of invested assets in 2004, property/casualty insurers' investment gains remained nearly 15% below peak levels realized in the late 1990s. Investment gains were strong in recent years, increasing 26% in 2003 and 8% in 2004 (A.M. Best data). Subsequent increases are being tempered, however, as conservative investment composition, shorter maturity bond portfolios, low interest rates, and volatile equity markets restrict the industry's ability to rebound to peak levels.

**Figure 4. 2004 Net Investment Income Nears Peak Levels**



Investment income returned to near peak levels during 2004 despite lower interest rate yields, due to the increase in size of insurers' fixed-asset portfolios. Contributing to these lower yields was a decrease in the average maturity and duration of insurers' bond portfolios. In recent years, insurers sought to reduce interest-rate risk and take advantage of the smaller yield spread between short- and long-term bonds. At year-end 2004, the average maturity of P&C insurer bond holdings was estimated to be 7.44 years, down from a high of 8.9 years in 1999, according to the Insurance Information Institute. The continued downward pressure on long-term interest rates despite a 200 basis-point increase in the federal funds rate, has perplexed the Federal Reserve Board's policy and may undermine the purported benefits of restrictive monetary policy, slowing growth and reducing inflationary pressures. The Fed's rate increases significantly boosted short-term rates as three-month and one-year U.S. Treasury Bills experienced significant gains from 2.32 and 2.79 at the start of 2005 to 3.30 and 3.66 as of July 18, 2005. Increases in short-term yields and invested assets will boost insurers' immediate investment income, but significant gains will only occur with an upward shift or positive increase in the slope of the yield curve.

**Figure 5. 2004 US P/C Net Realized Capital Gains Significantly Lower than Peak Level**



Reflecting developments in financial markets, insurers' realized capital gains rebounded strongly in 2003 and 2004, but were still significantly below their 1998 peak. It is unlikely that the industry can repeat its 1998 peak performance, as insurers now invest a lower proportion of assets in common stock and equity market returns are far from booming. Stock-market activity in the first two quarters of 2005 implies a likely shrinkage in capital gains. The Standard & Poor's (S&P) 500 Index rose less than 1%, whereas it grew by 9% during 2004 and 26% during 2003. Equity markets were most significantly affected by oil prices during these two quarters, and year-end gains/losses will likely reflect this negative relationship. If the stock market remains relatively flat or negative, insurers will need to depend on growth in net investment income from their fixed income holdings to offset any underwriting losses.

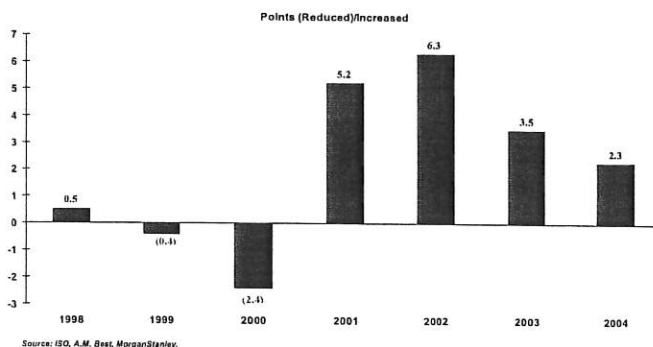
### Loss Reserves – Expecting Further Adverse Development

Adverse development of loss and loss-adjustment-expense reserves is one of the leading causes of insurer insolvencies and a key driving factor behind rating downgrades. It is largely because of this issue that two large reinsurance groups, Munich Re and GE Insurance Solutions, saw the ratings of several of its U.S. subsidiaries downgraded this year.

**Figure 6. Notable Rating Downgrades: January 1, 2005 to July 20, 2005**

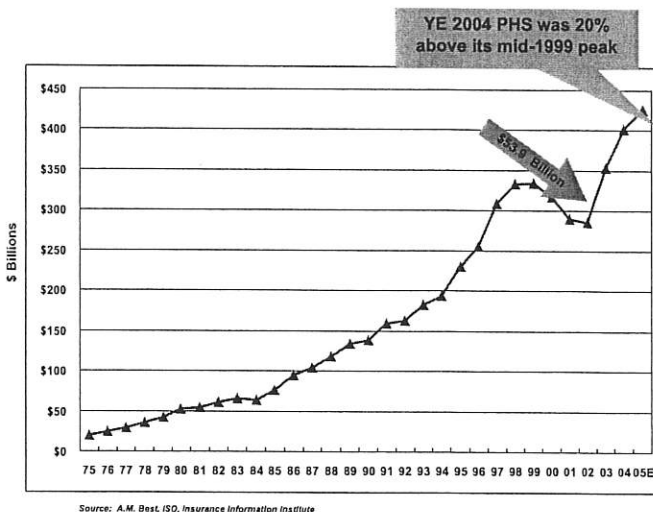
Insurer	A.M. Best		Standard & Poor's	
	Current Rating	Previous Rating	Current Rating	Previous Rating
AIG Companies	A+	A++	AA+	AAA
GE Insurance Solutions				
Coregis Insurance Company			A	A+
Employers Reinsurance Corp			A	A+
Ge Reinsurance Corp			A	A+
Westport Insurance Corporation			A	A+
Munich Re				
American Alternative Insurance Corp.	A	A+		
American Re-insurance Co	A	A+		
Princeton Excess & Surplus Lines Ins Co	A	A+		

**Figure 7. Combined Ratio – Impact of Reserve Changes (Points)**



In recent years, significant adverse development was seen in the commercial and reinsurance segments on reserves relating to prior accident years. Several companies took considerable reserve charges and the effects of these charges were declining operating performances for some insurers and weakened capitalization. According to A.M. Best, the industry reported adverse development of US\$9.9 billion in 2004, following US\$13.9 billion in 2003, US\$22.2 billion in 2002, and US\$10.8 billion in 2001.

**Figure 8. U.S. Policyholders' Surplus 1975-2005**



Reserve shortfalls and a high occurrence of catastrophic events pose a threat to individual insurers' surplus levels, but overall, the property/casualty industry is well capitalized. Statutory surplus grew by US\$46.5 billion in 2004 to US\$393.5 billion, reflecting strong earnings. This followed an increase of US\$61.6 billion reported in 2003. Despite the capital growth the industry has experienced, many insurers remain reluctant to report significant losses and reduced earnings during this hard insurance-market environment and have been seen reducing reserves for more recent accident years to offset adverse development

from older accident years. With pricing declining and competition on the rise, it is possible that recent accident years will develop less favorably than earlier accident years.

The adequacy of reserves varies significantly when looking at the individual sectors. Although declining, adverse development has been most prevalent in the commercial sector—particularly in the commercial multi-peril, workers compensation, and other liability lines. The commercial sector's core reserves are understated by approximately US\$16 billion, according to A.M. Best. Additionally, a significant amount of the industry's deficiency in asbestos and environmental reserves are found in this sector. It is more than likely that this sector will continue to experience further adverse reserve development. The reinsurance sector tends to encounter greater claims volatility and a significant lag in claims reporting. Considering the potential for further adverse reserve development on the 1997 through 2001 accident years, A.M. Best remains concerned with the current level of capitalization of some insurers within this sector. Most recently, American Re announced that it would record a net US\$1.4 billion charge for adverse prior accident-year reserve development in the second quarter of 2005.

# Major Coverage Lines

## Property

### Rates

Segment	Typical rate change at renewal
Large organizations (TIV over US\$250 million)	10% to 15% decrease
Mid-size organizations (TIV US\$25 to US\$250 million)	7.5% to 12.5% decrease

- Property insurance rates continued to decline in the second quarter of 2005. More than 87% of our clients obtained rate reductions in the quarter. For many insureds, this was the second year of double-digit reductions and the third year of overall reductions.
- Rates reductions were not as prevalent or significant for catastrophe perils. Difference in conditions (DIC) and earthquake (EQ) renewals have generally experienced from 5% decreases to 10% increases in rates. "All-risk" placements including EQ remain competitive, and replacing DIC layers with "all risk" including EQ capacity has generally resulted in favorable premium savings. This issue is especially critical for insurers with accumulation concerns along particular California fault lines.

### Underwriting Trends

- Property insurance-market capacity remains abundant; however, it is contracting somewhat for EQ coverage due to more stringent modeling programs. Most insurers are looking to offer their maximum capacity whenever they can to maintain program shares.
- The property insurance market remains competitive—particularly for those insureds with good to excellent loss history—although the size of rate reductions is generally less than one year ago. Loss experience has

become a key driver in determining underwriters' willingness to reduce premiums. Insureds with poor loss histories are experiencing flat renewals or moderate increases. Steel and coal are two industries that have experienced significant losses and, as a result, are being more closely analyzed by underwriters.

- The property insurance marketplace for habitational risk has varied based on geography. Habitational risks on the East Coast are seeing only small reductions to flat renewals. Similar insureds in the South Central, on the other hand, are obtaining 15% to 20% reductions. Insurers are pressuring for increased wind deductibles and extending the percentage deductibles from the Tier 1 counties to the entire state of Florida. Aggressive broking and alternative program structures have helped minimize these requested changes.
- Modeling is driving underwriting decisions, particularly for insureds with significant California EQ and Gulf Coast/Florida storm exposures. Insurers are modeling almost every risk prior to quoting, and the presence of large wind exposures may discourage some insurance markets from quoting.
- The uncertainty about the future of TRIA has affected insurance markets differently. Many insurers have become more cautious in extending limits that include terrorism in specific urban areas such as New York. For example, ACE decided to substantially reduce its terrorism writings in metropolitan zones, especially New York, and has lost several property insureds as a result. FM has reduced its fire capacity to match its terrorism capacity in certain areas. Some insurers are shying away from quoting risks in areas of cities where accumulation is an issue.

## Changes in Insurance Markets

- XL has increased its capacity on insureds it writes on a 100% basis from US\$500 million to US\$700 million. As of July 1, 2005, XL has written approximately 70 insureds on the 100% basis, utilizing its expanded capacity. Two-thirds of these insureds have been brokered by Marsh. XL has also raised its quota-share capacity from US\$250 million to US\$300 million. Its critical EQ capacity remains unchanged at US\$25 million.
- The U.S. operation of Munich American Risk Partners has increased its base underwriting capacity from US\$10 million to US\$75 million, with US\$10 million of California EQ capacity. The California EQ capacity utilization will vary and is driven by probable maximum loss (PML). It is looking to write large U.S. middle-market and small risk management insureds with this facility. No additional capacity is available via reinsurance from its parent. Large risk management and global insureds should still be quoted by the Munich branch, which has much more capacity.
- Allianz has US\$200 million in capacity and is a growing market for Marsh. It is reducing its exposure to Florida windstorm due to accumulation concerns, nonrenewing some insureds that are 100% Florida-based or have a significant%age of coastal exposure. It is not pulling out of Florida, but it is using its capacity selectively.
- St Paul Travelers have begun to quote blanket limits on some risks.
- ACE Westchester is writing wind-buyback coverage in Puerto Rico and the U.S. Virgin Islands. It also has a new primary treaty and has actively been writing new primary business, particularly public-entity business in the Southeast.
- In addition to ACE, Lexington and Aspen Re have also been actively looking to grow their primary business. Liberty Mutual, Affiliated FM, and Travelers continue to be aggressive players on middle-market business.



## Forecast

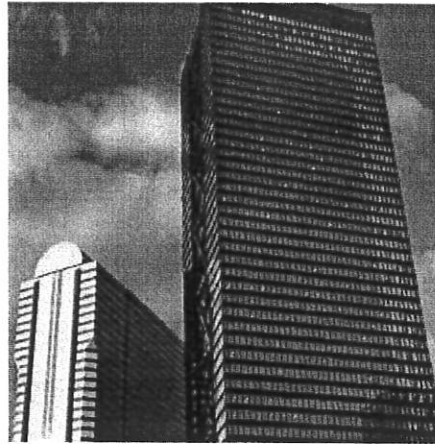
- With the exception of terrorism coverage, we see the property insurance market continuing to offer reductions for most insureds, with the pace of rate reductions slowly moderating due to the compound effect of year-over-year rate reductions. Competition in the insurance marketplace will allow clients to continue to improve coverage terms and achieve higher sub-limits. As noted in the terrorism section of this report, the pricing of terrorism insurance could increase dramatically, depending on the future of TRIA, and it is being watched closely by clients and brokers. Overall, we foresee that the favorable climate for buyers will continue throughout 2005.

## Terrorism Insurance

### TRIA Update

- Uncertainty about the future availability of terrorism insurance in the United States if TRIA is allowed to expire at the end of 2005 has entered into renewal considerations of our clients and insurers in multiple coverage lines. For example, many property and liability clients have addressed the possibility that terrorism coverage may not extend for the full term of the policy, be sub-limited, or even be totally excluded.
- Conditional endorsements have been developed, although not approved for use in all states, which allow insurers to exclude or sub-limit terrorism coverage after December 31, 2005 if TRIA is not extended. Programs have been restructured to maximize the capacity of insurers willing to provide full-term terrorism coverage. Insurers are closely monitoring their accumulation exposures and selectively apportioning their terrorism capacity. Without TRIA, insurers would no longer have to make terrorism coverage available on all property and casualty policies (except for workers compensation), and they wouldn't have the federal reinsurance backstop to protect them from a catastrophic terrorism loss.
- The U.S. Treasury Department's long-awaited assessment of TRIA was released in a report to Congress on June 30, 2005. Treasury's report was accompanied by a letter and subsequent testimony from Treasury Secretary John Snow setting forth the Bush administration's position on the possible extension of TRIA. Similar to Marsh's survey results, the Treasury's survey determined that:
  - 54% of policyholders purchased terrorism coverage, and 67% of commercial property and casualty insurance policies covered terrorism in 2004;
  - Nearly 60% of insurers are charging for terrorism coverage in their policies; and

- The price of terrorism insurance generally declined from 2002 to 2004.
- While the administration opposes the extension of TRIA in its current form, it is willing to consider an extension that modifies the trigger, increases the insurers' share of any loss, includes tort reform, and excludes coverages such as automobile and general liability. Secretary Snow agreed that a revamped TRIA bill is a priority this year, and the House Financial Services Committee Chairman, Michael G. Oxley (R-OH), indicated that he is committed to bringing terrorism insurance legislation to the House floor by year-end.



### Emerging Underwriting Trends

- AIG/Lexington is beginning to look at its terrorism-aggregate positions. It has not issued any restrictions yet, but it is going to look critically at submissions that are for capacity-commitment-type products only. It wants to make sure that it retains aggregate capacity for renewals and especially for insureds where it has property positions. It is encouraging early renewals.
- ACE is restricting its terrorism capacity to insureds where it has a significant property position. It has substantially reduced its terrorism writings in metropolitan zones, especially New York, and has lost several property insureds as a result.
- Berkshire Hathaway continues to support standalone terrorism submissions, but will currently only consider providing capacity as reinsurance of a licensed U.S. captive or front.
- Glacier Re, based in Zurich, can provide standalone terrorism reinsurance capacity either to licensed U.S. captives or fronts. It is currently awaiting its direct-writing license.
- London's capacity for risks outside urban areas and generating sufficient premiums has increased to US\$450 million.
- Monitoring of aggregates has become even more of a priority for both Lloyd's and Bermudian insurers. Capacity in Manhattan in particular is tight following a large uptake of capacity commitment policies.

### Forecast

- Treasury's report acknowledges that the expiration of TRIA will probably result in more limited terrorism capacity, less terrorism insurance written by insurers, higher prices, and lower policyholder take-up. This trend will continue until policyholders' surplus increases further, new capital and new markets enter the terrorism insurance marketplace, and terrorism reinsurance capacity becomes more readily available.
- We foresee that continued uncertainty about the fate and substance of a TRIA extension will require insurers to continue to restrict their terrorism capacity, particularly in certain city areas with risk and accumulation concerns. Clients with exposures in these areas will incur higher premiums and lower capacity. Workers compensation insurers may reduce their writings in these areas, and some clients may be forced to find new insurers if their incumbent insurer is over-lined in particular locations.

### Further Reading

See Marsh's Marketwatch: Terrorism Insurance 2005:  
Treasury Department's TRIA Report to Congress

# Major Coverage Lines

## Casualty

### Rates

Segment	Typical rate change at renewal
General Liability	5% to 15% decrease
Auto Liability	5% to 20% decrease
Workers Compensation (primary)	5% decrease to 15% decrease
Workers Compensation (Excess)	Flat to 10% decrease
Umbrella and excess liability	Flat to 15% decrease

### Primary Casualty

- Overall, the second quarter of 2005 has produced rate-on-line decreases that were slightly greater than those experienced in the first quarter of 2005.
- Insurance-market competition is consistently presenting downward pricing for new and renewal primary casualty business. We have experienced substantial rate reductions for high-quality insureds under vigorous insurance-market competition.

### Underwriter Changes

- XL continued to establish itself as a viable risk management market.
- Arch wrote its first insured and continues to emerge as a casualty insurance market.
- Some insurance markets are now offering combined general liability and environmental liability coverage for certain risk profiles, allowing the insured to secure some environmental liability coverage at a minimal additional premium, as compared to their current general liability placements.

### Emerging Underwriting Trends

- ACE, AIG, and Old Republic have offered multiyear front renewals and performance guarantees (i.e., timely policy issuance).
- Multiyear programs are being offered on programs that include risk transfer as well. Negotiating a multiyear program can be an effective strategy to ensure that an aggressive offer from an insurer is not a short-term effort on its part to gain market share.
- The recent terrorist attacks in London further exhibit the need for a U.S. resolution to TRIA expiring at the end of the year. The Treasury Department has recommended against extending the legislation in its current form. Potential losses are enormous and so unpredictable that in the absence of an extension of TRIA, private insurance will either become prohibitively expensive or evaporate for risks where underwriters determine there is exposure.
- The national accounts units of a number of insurers have agreed to amend Insurance Services Office, Inc. (ISO) or National Council on Compensation Insurance (NCCI) TRIA wordings being generated that would allow the insurers to unilaterally change premiums on in-force policies in the event that TRIA is not renewed. The approach taken by the insurers varies from refraining from use of endorsements, to giving clients the option of removing the onerous wording for a small additional premium charge now, to modified wording limiting the insurer's freedom to change the premium. Insurers that have agreed to some form of palatable modification as of this writing include Liberty Mutual national accounts, St Paul Travelers national accounts, Arch, Discover Re, and Zurich national accounts.

- Unfavorable loss trends, silica, or other latent disease potential remain grave concerns for insurers and will continue to be treated negatively on new and renewal primary casualty programs.
- Insurers are increasingly receptive to entertaining negotiation of the collateral requirements on loss-sensitive programs, especially for insureds with aggressive competitor interest. Incumbent underwriters are using their ability to consider multiple years of exposure in their collateral calculations to their advantage.

### Forecast

- With capacity abundant in the primary casualty arena, we see continued downward pressure on pricing. The uncertainty of the TRIA backstop may temper that downward pressure somewhat, but the presence of new underwriters trying to establish themselves will be the primary driver.

### Further Reading

Casualty Cost of Risk 2005. This third edition provides insurance buyers with a comprehensive view of the casualty insurance marketplace, including perspectives by industry and size of company.

### Third-Party Liability (General and Auto Liability)

#### Emerging Underwriting Trends

- The casualty market in the United States continues in a softening price mode. Increases are limited to those warranted by specific class experience, change in exposure, and negative loss developments.
- The general liability insurance marketplace is receptive to a broader appetite for risk; loss scrutiny has lessened as the general liability insurance marketplace softens.
- The 2004 edition of the ISO Commercial General Liability Form (CG0001) is now in use by many insurers through either direct adoption or modification of their own forms to follow ISO. The new form contains a number of changes that should be considered, including the following:
  - The new form amends the definition of mobile equipment. The new definition excludes any vehicle subject to state insurance law. Such vehicles should be covered under the ISO Business Auto Policy (CA0001). ISO has devised a new auto endorsement (CA0051) which states that vehicles subject to a

compulsory or financial-responsibility law are considered autos. This new auto endorsement is mandatory. It is critical that general liability and auto liability definitions be kept in sync.

- In addition to the liability form, the new additional insured endorsements are also appearing in the insurance marketplace. These endorsements have been reworded to eliminate coverage for sole-negligence suits—suits where the additional insured is solely negligent. The new endorsement represents a reduction in coverage that must be considered in negotiations.
- ISO has created an endorsement for use in conjunction with the new additional insured endorsements. This endorsement (CG2426) is titled “Amendment of Insured Contract Definition.” It redefines the term “insured contract” to exclude sole-negligence suits.

### Workers Compensation

#### Underwriter Changes

- Overall predicted rate decreases for California averages 15.4%. Since the first quarter of 2004 rates have declined approximately 30%. With new insurers appearing on the scene due to the enacted reform measures, more employers have been leaving SCIF. Over the last two years there has been a 4% decline in SCIF policyholders.

#### Emerging Underwriting Trends

- Clients who lease workers from employee leasing firms and have exposure to Texas workers compensation should be aware of certain nuances in the law in the event they desire to insure that exposure. Clients should first determine whether the arrangement with the employee leasing firm is subject to the Texas Staff Leasing Services Act.
- Major workers compensation markets are more receptive to negotiating policy terms and conditions.
- Many incumbents are offering flat renewal collateral requirements on workers compensation which adds a competitive edge to their renewal quotations. Several markets have offered a two-year collateral commitment.

**Figure 9. Comparison of average rate decrease for California's largest workers compensation carriers:**

Insurer	'04 Market Share	Average Rate Reduction (Jan '05)	Average Rate Reduction (July '05)
SCIF	51%	-5%	-14%
Zenith Insurance Co.	4.5%	-6.4%	-12%
Everest National	3.1%	-1.5%	-13.8%
American Home Assurance	2.9%	-2.4%	-15.1%
Zurich American	2.4%	-6.4%	-22.7%

### Legislative Developments

- Since the first quarter 2005 report, significant activity has taken place in the workers' compensation legislative arena.
- With the passage of AB 1825, California employers are required to implement a two-hour sexual harassment training and education for all supervisory employees. In response, Marsh's Workers Compensation Practice in conjunction with Marsh Risk Consulting Practice has formulated the appropriate training module for employers. This product is being offered through Marsh's Workforce Strategies Practice California.
- With the passage of HB 7 the Texas Legislature has met its goal of executing reform prior to the close of its legislative session. This bill dissolves the Texas Workers' Compensation Commission (TWCC) and institutes the Texas Department of Insurance (TDI). Texas is seeking to improve the ultimate cost of medical care and attract qualified doctors back into the workers compensation arena. The intent of the legislation is to create networks fashioned after health care insurance networks, which have historically provided services at lower costs and more favorable results. The law changes relative to HB 7 are effective September 1, 2005. (For a more detailed assessment of the Texas workers' compensation, see Workers Compensation Practice Communication series Part I, II, and III regarding Texas Non-subscription and Texas Reform.)
- Illinois employers pay on average 40% more for workers compensation than those employers in the surrounding states of Michigan, Wisconsin and Indiana. In an effort to combat the high cost of workers' compensation, the state of Illinois has passed long-awaited workers' compensation reform, HB 2137. The reform changes are effective as of February 1, 2006. A medical fee schedule, adjusted to the Consumer Price Index, is being instituted to cut costs. The Illinois Chamber of Commerce

estimates total cost saving of US\$131million. (For a detailed analysis of the Illinois reform, see Workers' Compensation Practice Communication "Illinois Passes Workers' Compensation Reform.")

- Missouri has passed SB 1. All provisions for this bill are effective as of August 28, 2005. The breadth and depth of the Missouri workers compensation reform provides substantive changes that recent reforms across the nation failed to address. The reform changes narrow the scope of the definition of compensability; add accountability to employees for workplace safety and conduct, and removes previously existing partiality on the side of the employee for dispute resolution. (For a detailed analysis of the Missouri reform, see Workers Compensation Practice Communication "Missouri Moves Forward with Bold Workers' Compensation Reform.")

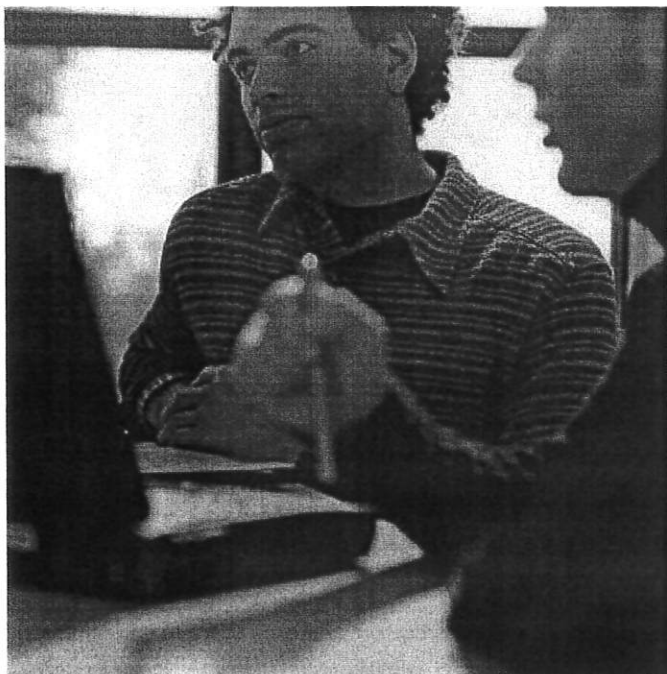
### Excess Workers Compensation

#### Underwriter Changes

- ERC / GE Insurance Solutions has announced it is exiting the excess workers compensation market. It is looking for a buyer for this book of business, along with its healthcare business. ERC / GE will be conducting business as usual and selectively considering new business.
- XL made the decision it will no longer provide stand alone excess workers compensation in situations where there are no other supporting lines of business. XL will continue to write excess workers compensation for those customers and prospects that have a mix of insured and self-insured states. XL changed its position over concerns with the uncertainty associated with the renewal, or extension, of TRIA.
- AIG's excess workers compensation unit has expressed increased interest in providing coverage for nuclear power plants. AIG is willing to offer statutory coverage, or a specific dollar limit, and is willing to attach excess of a self-insured retention (SIR) or on an SIR basis excess of a limit provided by AEGIS or EIM.

#### Forecast

- The uncertainty of the TRIA backstop coupled with underwriters more clearly understanding their non-TRIA catastrophe exposure will continue to mitigate the downward pressure on primary and excess workers compensation pricing. We expect rate reductions on this line that are less significant than on primary third party liability.



## **Umbrella and Excess Liability**

### **Underwriter Changes**

- Zurich North American Specialties decided to exit energy business in its regular excess unit and move its energy business into its Zurich Global Energy unit. Zurich NA Specialties is conducting a thorough examination of all underwriting classifications. Large automobile fleets greater than 1,000 units are especially problematic.
- We have seen resurgence in underwriters' appetite to offer "per location" aggregates on certain real-estate and financial-institution insureds. This resurgence began in the first quarter and became increasingly prevalent in the second quarter.
- XL America announced its interest in achieving a ranking among the top-tier excess liability admitted insurers in the United States. Target classes for XL are manufacturing, commercial contractors, financial institutions, retail/wholesale, real estate, and service industries. Energy is included on its list of targeted classes (exploration and production, refineries and service contractors), but only for excess liability.
- AIG Excess Casualty has established industry practices for real estate and financial institutions and desires expansion into other areas such as transportation.
- Lloyd's syndicate Wellington Underwriting plc announced US\$25 million of new excess liability capacity for Marsh clients. Wellington is willing to utilize this capacity on occurrence-reported and/or claims-made coverage forms with a minimum attachment of US\$100 million. Marsh's London office will act as the facilitator for these placements.

### **Emerging Underwriting Trends**

- The excess casualty market as a whole has seen some insureds receive pricing reductions.
- Ohio Casualty will no longer provide the punitive-damages wrap previously available through Magna Carta. Its decision includes all new business as well as renewals.
- XL has decided to handle punitive-damages wraps out of Dublin rather than Bermuda. While XL will handle punitive-damages placements in Dublin, Marsh's Bermuda office continues to remain as the access point.
- Many clients are purchasing higher excess limits because their renewal premiums are lower than budgeted and, consequently, they can afford more excess coverage. Retention levels on most risks are static; however, underwriters such as AIG, ACE, and Zurich are increasingly scrutinizing automobile attachment points reflected on account size and complexion. In general, there has been no meaningful contraction of coverage.
- For selective industries such as real estate, financial institutions, and light manufacturing, we are seeing meaningful competition in the lead umbrella area; however, as a general rule, price decreases remain in the area of 7% to 10%, depending on exposure increases or decreases and no mentionable changes in attachment points.
- In the excess insurance marketplace, underwriters are still cautious on minimum premiums; but depending on the attachment point, there has been flexibility. Also, there has been a notable increase in competition across select business in the layers between US\$25 million and US\$100 million.

# Major Coverage Lines

## Financial and Professional

### Directors and Officers Liability

#### Rates

Segment	Typical rate change at renewal
Commercial Insureds	0% to 15% decrease
Financial Institutions	5% to 15% increase

- Dismissal rates of class-action lawsuits have nearly doubled after the passage of the Private Securities Litigation Reform Act of 1995 and account for 39.3% of dispositions of securities class actions filed from 1996 through 2002. This increase offsets the increased likelihood that a public company will be sued in a securities class action. As a result, the annual probability of a company facing a suit that survives a motion to dismiss has remained roughly constant at 1.2%.
- A recent NERA study shows that in the first half of 2005, the median settlement value of securities class-action cases jumped nearly 30% to US\$6.8 million from US\$5.3 million last year. The study states that the driving factor behind this increase is a sharp reduction in "nuisance" settlements of under US\$3 million.
- Securities class-action filings are down by 17% in the first half of 2005. The study finds that the slowdown is attributable to a drop in filings in the 9th Circuit, where plaintiffs' firms may have delayed filing cases pending the decision in *Dura Pharmaceuticals v. Broudo*.
- Capacity remains high with excess of US\$1.4 billion readily available and more than 50 companies offering primary and excess D&O coverage. As such, underwriters are more willing to offer primary proposals on large insureds than they were in the past and remain competitive with multiple options on coverage, design, and pricing.

### Emerging Underwriting Trends

- Underwriting meetings continue to be an integral part of a successful renewal process. Underwriters are looking for more of a candid dialogue with senior management than a formal presentation.
- Additional risk sharing by virtue of coinsurance, higher retentions, or preset allocation is almost exclusively up to the client's discretion—i.e., underwriters are not imposing these conditions, but if the client is willing to assume this risk, it will be reflected in the premium.
- The underwriting community continues to appear more willing to offer broader terms and conditions than it has in recent years past. Nothing is off limits. Severability and application, warranty, and non-rescindability wording all remain critical areas of coverage to be explored and negotiated.
- Our clients are continuing to evaluate the benefits of broad A-side policies to cover non-indemnifiable claims.
- Although policy forms exist for independent directors, they have not yet gained popularity with the general purchasing public. The limits of these policies are exclusively dedicated to the independent directors. Many companies have chosen instead to allocate their premium resources to broad form A-side policies that provide coverage for all directors and officers.

### Further Reading

Please see Marsh's Securities Class Action Claims Data – A review of NERA's Study of 2004 Filings and Settlements.

## Fiduciary Liability

### Rates

Segment	Typical rate change at renewal
Large Insureds	Increases in excess of 10%
Mid-size Insureds	0% to 10% increase

- Although overall capacity remains stable, most insurers are being bearish about offering that capacity. For example, an insurer may technically have US\$25 million of available capacity, but only be willing to commit US\$10 million on a particular risk. Due to this trend, insureds should begin the underwriting process early to avoid any unpleasant surprises.

### Emerging Underwriting Trends

- The amount of company stock in plans is a critical factor in rating.
- The emphasis seen in the first quarter of this year on underwriting of the exposure has continued. This is primarily the result of the continued growth of Employee Retirement Income Security Act (ERISA) "tag-along" claims and recent settlements, such as Shell Oil's US\$90 million dollar "tag-along" settlement.
- Insurers continue to attempt to impose a tie-in-of-limits endorsement between the D&O and the fiduciary for security-holder claims where the insurer provides coverage for both risks, or they may attempt to exclude security-holder claims from the fiduciary program entirely.

## Fidelity

### Rates

Segment	Typical rate change at renewal
All Insureds	0% to 10% increase

- In general, the insurance market remains competitive and stable.
- Capacity remains stable at approximately US\$625 million. Although there was a contraction in capacity when Gulf, Travelers, and St Paul merged their underwriting operations, Arch and AXIS added new capacity to the insurance marketplace.
- Upward pressure on deductibles is still evident where insureds have had significant growth or loss experiences.

- Because of poor loss experience, coverage for third-party agents and mortgage-fraud/fraudulent-documentation coverage, continue to be difficult to obtain.

- Underwriters continue to resist straying from the standard coverage forms, although they remain willing to maintain the vast majority of the coverage enhancements and extensions that were negotiated into most programs during the previous soft insurance market. It is important to note, however, that adverse loss experience can affect coverage terms, with insurers seeking to treat exposures that have given rise to loss by restricting coverage via additional exclusions, built-in warranty provisions, or reduced limits.

## Employment Practices Liability

### Rates

Segment	Typical rate change at renewal
All Insureds	0% to 10% decrease

- We continue to see increased premium competition for the mid-size firms (1,000 to 10,000 employees) and for larger firms, driven by Bermuda-based insurance markets. Domestic insurance markets are having to decrease premiums by up to 10% to maintain renewals. There are also new entrants in the insurance marketplace that are actively seeking to write middle-market insureds (e.g., London and Axis), which is driving competition in the market..
- Capacity remains stable at approximately US\$850 million.
- Insurers are continuing to utilize their capacity, albeit not in continuous blocks on large programs.
- Underwriters are constantly reviewing court cases to identify new exposures. A good example of this is the July 19 California Supreme Court decision in Miller v. Department of Corrections, which found that even a consensual relationship between co-workers can create a hostile work environment for other employees.
- For California exposures, underwriters now require documentation regarding new California Law AB 1825, requiring two hours of sexual harassment and prevention training for supervisors.

## Errors and Omissions Liability

### Rates

Segment	Typical rate change at renewal
Commercial Insureds	0% to 10% decrease
Lawyers Professional	5% decrease to 5% increase

### Emerging Underwriting Trends

- Capacity remains stable for commercial insureds at approximately US\$350 million.
- Capacity for lawyers' professional liability is stable at approximately US\$300 million.
- Policies generally contain multiple, highly manuscripted endorsements in order to provide the comprehensive coverage needed for identified exposures. It is important to have thorough conversations with your broker and underwriter to ensure you have identified all the issues.

# Specialty Coverage Lines

## Surety

### Rates

Segment	Typical Rate Change at Renewal (Average / Good Risk Profile)
Commercial Surety	7% to 10% decrease
Contract Surety	Flat to 10% increase
International Surety	Flat

- Regardless of the segment of surety business, most sureties today are utilizing cost-of-capital and credit-scoring models to help determine the pricing on their books of business.
- Several surety markets have exited the business over the last six months, including XL Surety and Crum & Forster, the 10th and 18th largest writers respectively, of surety premium in 2004 (source, The Surety Association of America). Reasons for their exits include the significant amount of capital and overhead required to support the surety business, the volatility the surety line can present, and the limited potential returns attainable for the capital allocated.

### Commercial Surety

#### Rates

After 100% or greater average price increases in 2003 and a flat 2004, pricing is starting to fall in 2005. Average rate decreases are 7% to 10% with higher credit-quality companies receiving the bulk of the decreasing pricing.

#### Emerging Underwriting Trends

The commercial surety market continues to be in flux as losses have leveled off. From 2002 to 2004, many sureties requested and received collateral to guarantee existing

higher-risk bonds while also increasing pricing by two or more times. Companies that were affected by these actions, in the interest of reducing costs, are often replacing their surety programs with alternate credit guarantees, such as bank letters of credit. As a result, overall commercial surety premiums are down approximately 10% as bonds are replaced and premiums returned. Sureties will be under continuous pressure to reduce costs and improve terms as time goes by and they struggle to meet their commercial surety budgets.

There is adequate capacity today to handle financially healthy companies with surety program needs of US\$400 million or less, and there is strong surety competition for financially healthy companies needing US\$100 million or less in surety support. To obtain the best terms and conditions today, it is often necessary to remarket an insured, as an incumbent surety, in the interest of meeting its premium budget, may be unwilling to improve pricing and overall terms and conditions unless it is faced with competitive pressures.

Companies needing over US\$500 million in commercial surety support are still facing capacity restrictions and, as a result, often face higher pricing and greater collateral requirements and less flexibility in terms and conditions.

### Contract Surety

#### Rates

After facing multiple increases the last few years, current pricing on all size segments is holding steady, with isolated cases of pricing increases of 5% to 10% in 2005.

From a contract surety standpoint, there has been little activity in surety pricing changes from 2004, and we believe that this will continue throughout the balance of the year. While all sureties today continuously review their rates

on an individual account basis, adjusting where necessary for credit quality, only one or two national sureties have looked to obtain increased pricing with any regularity on their contract surety insureds. Contractors needing bonds on environmental-remediation projects continue to face higher pricing; and for some, we feel that this pricing may be increasing in the near future.

## Underwriter Changes

Zurich North America recently eliminated its dedicated underwriting unit for environmental contractors and pushed this responsibility out to its field offices.

Many of the national sureties have either entered the market for completion bonds for the national publicly traded homebuilders or increased the capacity that they provide. Insco/Dico, one of the smaller national players that has specialized in providing completion bonds for smaller developers and homebuilders, recently announced the ability to provide up to US\$50 million of capacity for qualifying national publicly traded homebuilders.

## Emerging Underwriting Trends

- From a contract surety perspective, healthy middle-market and large construction insureds are having few issues obtaining meaningful support today, while some emerging and/or smaller contractors continue to have difficulties.
- Jumbo contractors, those with uncompleted work programs of US\$500 million and larger, are often facing surety capacity issues due to the limited number of capacity surety players today, as many of the national sureties are focusing on contractors with uncompleted work programs below US\$150 million. These jumbo contractors, if financially and operationally healthy, are currently having their needs met, but are facing additional underwriting scrutiny, information requirements, and, often, higher pricing.
- Sureties also continue to perform due diligence of their partners in co-surety situations, which are common on jumbo-capacity users of surety support. All contractors, even if healthy, are being required to provide additional underwriting information, are being asked more questions on contract terms and conditions, and, in many situations, are being required to provide additional indemnity.
- In a situation where a defaulting bonded contractor of St Paul Travelers has purchased contractors default insurance (CDI), St Paul Travelers has indicated that it is looking either to be named as an additional insured or to receive an assignment of the CDI policy. (CDI is a product that has grown in use over the years,

particularly for general contractors subcontracting US\$50 million or more of their revenue. Zurich North America is the only insurer providing CDI today)

## Changes in Product Offerings

Chubb's surety unit has developed a new product called SuretyPlus, which is an excess surety bond that Chubb will offer for creditworthy contractors on projects/bonds over US\$500 million. It will offer up to US\$250 million of coverage on top of a US\$500 million primary bond, and the bond will only come into play if the primary performance and payment bonds are exhausted in a loss situation. Chubb's bond will only respond to the obligee if the sureties on the primary bond have fulfilled their obligations in a claim situation or if the owner has absorbed those losses in the event that the primary sureties are unable to respond due to insolvency.

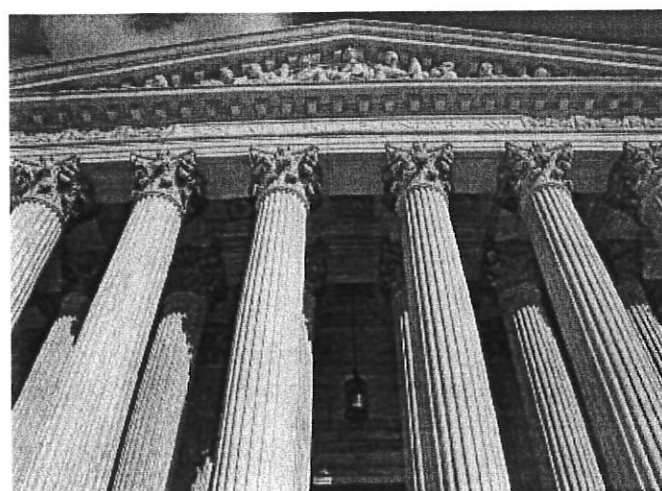
## International Surety

### Rates

Overall pricing is holding steady. From an international perspective, sureties are often competing with banks for business; and today, they are less willing to try to compete in the international markets solely on the basis of pricing. In addition, on multiyear contracts, sureties are calculating premiums on a per-annum basis with all premiums being collected upfront instead of being collected annually.

## Emerging Underwriting Trends

Relative to international business, there are renewed efforts from domestic surety markets on reverse-flow business; i.e., international firms operating in the United States and Canada, with particular emphasis in quality credits from Western Europe and Japan. There is also greater scrutiny being paid to the enforceability of foreign indemnity agreements as they relate to a surety's right as a creditor.



The information contained in this publication provides only a general overview of the subjects covered, is not intended to be taken as advice regarding any individual situation, and should not be regarded as such. Insureds should consult their insurance and legal advisors regarding specific coverage issues.

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# UTAH COUNTIES INSURANCE POOL

## Workers' Compensation Report

All Years as of 7/31/05

COUNTY	EFFECTIVE DATE	PREMIUMS		NUMBER of CLAIMS				TOTAL INCURRED		LOSS RATIO
		2004	2005	Medical Only		Indemnity		2004	2005	
				Open	Closed	Open	Closed	as of 7/31/05		
Cache	7/1/2004	\$34,560	\$96,747	7	29	1	1	\$31,769	\$34,620	50.56%
Carbon	1/1/2004	\$90,781	\$90,781	2	24	2	2	\$122,773	\$2,945	69.24%
Daggett	1/1/2004	\$13,232	\$23,010	0	5	0	0	\$436	\$575	2.79%
Duchesne	1/1/2004	\$35,820	\$49,837	0	9	0	1	\$18,233	\$0	21.29%
Emery	1/1/2004	\$49,785	\$49,785	1	9	2	1	\$63,204	\$7,082	70.59%
Garfield	1/1/2004	\$22,047	\$27,654	0	7	0	1	\$3,691	\$7,818	23.16%
Grand	1/1/2004	\$25,504	\$34,619	4	9	1	0	\$2,715	\$33,692	60.55%
Iron	1/1/2004	\$62,704	\$74,232	2	34	1	2	\$23,630	\$3,820	20.05%
Juab	1/1/2004	\$23,557	\$22,338	1	5	2	0	\$3,996	\$821,003	1797.58%
Kane	1/1/2004	\$10,547	\$26,694	3	4	0	1	\$711	\$5,489	16.65%
Millard	1/1/2004	\$54,271	\$79,191	5	19	0	1	\$15,740	\$9,576	18.97%
Morgan	1/1/2004	\$14,966	\$19,479	2	2	1	0	\$2,765	\$44,840	138.20%
Piute	2/1/2004	\$3,800	\$5,678	0	0	0	0	\$0	\$0	0.00%
Rich	2/1/2004	\$4,085	\$9,129	1	0	0	1	\$15,210	\$500	118.89%
San Juan	1/1/2004	\$26,820	\$49,540	5	20	1	5	\$31,571	\$8,665	52.69%
Sanpete	1/1/2004	\$21,096	\$21,183	0	3	1	0	\$44,310	\$0	104.80%
Sevier	1/1/2004	\$21,791	\$24,491	2	17	1	3	\$30,901	\$8,983	86.18%
Summit	1/1/2005	\$0	\$83,243	4	8	0	0	\$0	\$7,138	8.57%
Tooele	1/1/2005	\$0	\$97,983	6	7	2	0	\$0	\$34,345	35.05%
Uintah	1/1/2004	\$80,020	\$93,978	4	35	1	1	\$44,215	\$16,845	35.09%
Utah	4/1/2004	\$126,850	\$187,031	11	74	3	4	\$80,912	\$30,143	35.38%
Wasatch	1/1/2005	\$0	\$83,715	2	3	0	0	\$0	\$338	0.40%
Wayne	1/1/2004	\$5,719	\$5,719	0	1	0	0	\$140	\$0	1.22%
Weber	6/1/2004	\$178,296	\$370,776	19	65	5	0	\$19,709	\$100,568	21.91%
Wasatch MH	7/1/2005	\$0	\$24,078	0	0	0	0	\$0	\$0	0.00%
<b>TOTALS</b>		<b>\$906,251</b>	<b>\$1,650,911</b>	<b>81</b>	<b>389</b>	<b>24</b>	<b>24</b>	<b>\$556,633</b>	<b>\$1,178,984</b>	<b>67.87%</b>

**UTAH COUNTIES INSURANCE POOL**  
**Workers' Compensation Report**  
This Year as of 7/31/05

COUNTY	PREMIUM 2005	NUMBER of CLAIMS YTD				TOTAL PAID	TOTAL RESERVES	TOTAL INCURRED	LOSS RATIO
		Medical Only		Indemnity					
		Open	Closed	Open	Closed				
Cache	\$96,747	5	12	1	0	\$9,639	\$24,981	\$34,620	35.78%
Carbon	\$90,781	2	7	0	0	\$2,612	\$333	\$2,945	3.24%
Daggett	\$23,010	0	1	0	0	\$575	\$0	\$575	2.50%
Duchesne	\$49,837	0	2	0	0	\$0	\$0	\$0	0.00%
Emery	\$49,785	0	4	1	0	\$6,582	\$500	\$7,082	14.22%
Garfield	\$27,654	0	1	0	1	\$7,818	\$0	\$7,818	28.27%
Grand	\$34,619	3	2	1	0	\$21,257	\$12,435	\$33,692	97.32%
Iron	\$74,232	2	13	0	0	\$2,860	\$960	\$3,820	5.15%
Juab	\$22,338	0	0	2	0	\$1,102	\$819,902	\$821,003	3675.37%
Kane	\$26,694	3	2	0	1	\$3,989	\$1,500	\$5,489	20.56%
Millard	\$79,191	6	7	0	0	\$1,498	\$8,078	\$9,576	12.09%
Morgan	\$19,479	1	0	1	0	\$22,078	\$22,762	\$44,840	230.19%
Piute	\$5,678	0	0	0	0	\$0	\$0	\$0	0.00%
Rich	\$9,129	1	0	0	0	\$0	\$500	\$500	5.48%
San Juan	\$49,540	3	4	2	0	\$1,979	\$6,687	\$8,665	17.49%
Sanpete	\$21,183	0	0	0	0	\$0	\$0	\$0	0.00%
Sevier	\$24,491	2	2	1	0	\$984	\$7,999	\$8,983	36.68%
Summit	\$83,243	4	8	0	0	\$2,459	\$4,679	\$7,138	8.57%
Tooele	\$97,983	6	7	2	0	\$18,369	\$15,976	\$34,345	35.05%
Uintah	\$93,978	4	8	0	0	\$9,814	\$7,031	\$16,845	17.92%
Utah	\$187,031	12	17	1	1	\$16,034	\$14,109	\$30,143	16.12%
Wasatch	\$83,715	0	3	0	0	\$338	\$0	\$338	0.40%
Wayne	\$5,719	0	0	0	0	\$0	\$0	\$0	0.00%
Weber	\$370,776	19	21	5	0	\$51,488	\$49,079	\$100,568	27.12%
Wasatch MH	\$24,078	0	0	0	0	\$0	\$0	\$0	0.00%
TOTALS	\$1,650,911	73	121	17	3	\$181,473	\$997,511	\$1,178,984	71.41%

# UTAH COUNTIES INSURANCE POOL

## Multiline Claims Report

YTD as of 7/31/05

COUNTY	PREMIUM	NUMBER of CLAIMS YTD		TOTAL PAID	TOTAL RESERVES	TOTAL INCURRED	LOSS RATIO
		Open	Closed				
Beaver	\$60,785	0	3	\$3,153	\$0	\$3,153	5.19%
Box Elder	\$164,995	3	5	\$549,035	\$83,136	\$632,170	383.15%
Cache	\$198,563	6	4	\$41,887	\$34,349	\$76,236	38.39%
Carbon	\$137,757	1	0	\$764	\$0	\$764	0.55%
Daggett	\$40,545	1	2	\$35,197	\$1,500	\$36,697	90.51%
Davis	\$367,700	5	12	\$24,370	\$10,372	\$34,742	9.45%
Duchesne	\$119,255	0	3	\$30,695	\$0	\$30,695	25.74%
Emery	\$158,062	0	1	\$1,785	\$0	\$1,785	1.13%
Garfield	\$59,922	0	6	\$9,763	\$206	\$9,968	16.64%
Grand	\$91,290	0	1	\$1,919	\$0	\$1,919	2.10%
Iron	\$153,363	2	3	\$0	\$3,000	\$3,000	1.96%
Juab	\$107,247	1	1	\$193	\$20,000	\$20,193	18.83%
Kane	\$74,072	2	1	\$500	\$3,500	\$4,000	5.40%
Millard	\$138,163	1	3	\$8,960	\$6,562	\$15,522	11.23%
Morgan	\$48,361	0	0	\$0	\$0	\$0	0.00%
Piute	\$22,232	0	0	\$0	\$0	\$0	0.00%
Rich	\$44,226	0	0	\$0	\$0	\$0	0.00%
San Juan	\$149,487	1	1	\$1,103	\$700	\$1,803	1.21%
Sanpete	\$61,977	2	1	\$0	\$20,300	\$20,300	32.75%
Sevier	\$83,927	4	1	\$546	\$42,000	\$42,546	50.69%
Tooele	\$182,679	2	9	\$238,546	\$1,459	\$240,005	131.38%
Uintah	\$187,388	1	9	\$13,170	\$15,000	\$28,170	15.03%
Utah	\$442,324	10	19	\$30,230	\$72,119	\$102,349	23.14%
Wasatch	\$197,895	0	1	\$1,335	\$0	\$1,335	0.67%
Washington	\$230,845	5	5	\$5,238	\$22,218	\$27,456	11.89%
Wayne	\$40,409	0	0	\$0	\$0	\$0	0.00%
Weber	\$518,721	8	14	\$16,195	\$13,125	\$29,320	5.65%
Tri-County	\$8,500	0	1	\$16,164	\$0	\$16,164	190%
Weber-Morgan	\$14,810	0	1	\$2,106	\$0	\$2,106	14%
<b>TOTALS</b>	<b>\$4,105,500</b>	<b>55</b>	<b>107</b>	<b>\$1,032,851</b>	<b>\$349,546</b>	<b>\$1,382,397</b>	<b>33.67%</b>

# UTAH COUNTIES INSURANCE POOL

## Multiline Claims Report

All Years as of 7/31/05

	Number of Claims			Total Incurred															
	Open	Closed		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total	
Beaver	1	75	1,454	2,972	7,397	7,953	30,644	15,356	11,783	28,952	10,862	26,351	5,863	6,906	26,534	3,153	186,256		
Box Elder	6	229	7,960	153,460	53,712	51,568	11,367	23,292	10,189	3,262	115,023	48,523	277,398	79,355	24,283	632,170	1,491,797		
Cache	10	263	223,764	274,008	140,866	28,527	81,914	35,366	16,318	17,547	93,369	211,886	62,267	76,865	103,862	76,236	1,443,068		
Carbon	0	58	0	0	0	0	0	0	121,825	30,953	2,389	355,226	22,243	18,193	6,189	764	557,839		
Daigett	3	14	0	0	0	0	0	0	0	0	2,337	0	23,500	47,760	57,189	36,700	167,503		
Davis	18	637	73,363	256,424	223,267	111,543	243,774	382,198	71,179	148,725	62,674	134,562	130,552	145,466	141,728	34,742	2,160,851		
Duchesne	7	144	22,926	76,176	20,774	24,684	13,122	41,632	7,319	76,518	0	49,719	41,242	220,848	44,130	30,695	669,936		
Emery	1	102	82,379	32,961	83,281	8,032	29,143	50,376	23,305	7,079	6,044	6,793	12,759	200,526	24,172	1,785	568,736		
Garfield	0	38	5,000	938	2,477	33,445	10,104	9,873	0	295	0	0	14,785	11,963	11,640	9,968	110,527		
Grand	4	114	6,812	43,012	2,938	2,947	60,804	714	30,145	19,438	48,608	21,713	2,336	132,173	8,620	1,919	382,296		
Iron	5	137	911	289,361	128,551	14,643	2,917	8,793	96,256	4,339	19,653	70,040	95,048	41,919	19,121	3,000	794,694		
Juab	2	48	0	41,000	67,707	5,631	22,838	17,236	172,902	5,501	16,155	33,471	14,661	140	584	20,193	418,068		
Kane	3	55	0	0	7,777	6,992	4,493	0	135,261	4,143	22,024	14,790	28,992	22,578	38,801	4,000	289,908		
Millard	2	145	0	2,669	21,738	90,408	40,832	8,821	99,179	22,767	42,468	10,134	40,487	21,171	29,980	15,552	446,354		
Morgan	3	9	0	0	0	0	0	0	0	0	0	0	0	0	43,621	0	43,621		
Piute	1	4	0	0	0	0	7,174	0	0	0	0	6,875	20,000	0	0	0	34,053		
Rich	2	14	777	800	1,630	5,788	1,947	0	10,407	290,000	849	0	480	0	16,000	0	328,694		
San Juan	4	150	52,355	21,010	8,957	58,771	19,226	5,522	94,754	40,475	27,928	40,922	4,017	52,676	482,415	1,803	910,985		
Sanpete	5	97	79,147	15,711	17,474	117,040	5,299	1,776	2,075	28,068	32,904	17,424	26,932	11,869	1,006	20,300	377,128		
Sevier	6	99	7,604	8,879	22,863	7,316	2,837	14,415	16,907	1,530	14,861	2,434	223,746	6,976	41,358	42,546	414,379		
Tooele	5	104	42,882	215,726	75,689	29,067	0	0	0	0	0	0	0	0	41,467	240,005	644,945		
Uintah	9	188	185,199	39,623	202,953	46,706	61,641	84,256	40,240	76,638	6,349	64,110	242,791	91,658	89,022	28,170	1,259,553		
Utah	29	551	154,286	125,687	191,225	152,602	134,502	184,695	281,890	104,271	111,597	340,515	26,186	241,116	269,193	102,349	2,420,692		
Wasatch	8	111	15,946	17,620	160,236	53,121	74,388	382,315	3,649	181,369	14,758	32,988	178,249	47,161	55,533	1,335	1,218,785		
Washington	14	280	165,231	64,911	112,514	53,944	41,792	7,024	169,317	159,102	14,761	53,525	41,890	191,515	101,028	27,456	1,204,304		
Wayne	1	14	1,202	0	202	0	23,831	569	23,849	0	0	0	55,786	644	0	0	106,099		
Weber	13	361	0	0	0	0	0	0	0	0	39,412	437,888	512,219	612,488	67,585	229,908	475,798		
Bear River	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,692		
Central	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,312		
TriCounty	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	16,164		
Weber-Morgan	0	4	0	0	0	0	0	0	0	0	0	0	0	0	978	2,106	3,088		
Total	162	4,048	1,129,196	1,682,947	1,554,228	910,728	924,589	1,264,357	1,488,033	1,688,565	1,178,127	2,154,488	1,659,795	1,902,697	2,155,945	1,382,431	21,080,320		

## All Years as of 7/31/05

2,009,541	2,256,084	2,420,903	2,663,470	2,752,739	2,845,648	3,010,144	3,082,286	3,166,759	3,274,080	3,576,825	3,939,994	4,262,104	4,134,242	43,394,819	48,58%
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August 23, 2005

# **UCIP Benefits Pool**

## **Program Design**



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# **Program Design Agenda**

- Executive Summary
- Proposed Plan Design
- Vendor Submission Summaries
- Financial Analysis
- Recommendations



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# Executive Summary





# Executive Summary

## Key Findings

- Results of Phase 2 (Program Design) identifies the financial and network requirements of a Health Insurance Benefits Pool for members of the Utah Counties Insurance Pool.
- **Financial and Network Overview:**
  - Pool Plan Design has three offerings (HMO, PPO, QHDHP),
  - Plan Design construct allows counties broader choice for employees,
  - Vendor options are a combination of cost, network, and ability to assist in future cost management,
  - Year 1 of pool requires an additional “load” to develop reserves and offset potential risk of aggregate exposure,
  - Future years would necessitate risk adjustments for counties to reward efforts for cost management,
  - Year 1 rates are blended across all counties and would require some counties to pay a higher rate, but risk factor adjustment in later years should smooth the issues,





# Executive Summary

## Key Factors

### Key Factors of Program Design Include:

- Benefit Design of Plans Offered
- *Expected Claims rate for plans offered* \*
- Vendor Capabilities and Selection
  - Ability to pay claims
  - Network Access
  - *Discounts\** (may impact expected claims rate)
  - Health Management Programs
  - Employee Education Tools
  - *Administrative Fees\**
- Benefits Trust
  - Funding / Administration / Reserve levels

*\* indicates a factor with significant financial impact*





# Executive Summary

## Overall Issues

### Possible Areas of Concern

- No Fully Insured Quotes received
  - All carriers declined to fully insure risk at this time
- No Aggregate Reinsurance available in first year
  - Difficulty in predicting risk of pool without knowing which counties will be included
- Declinations received:
  - IHC – declined “due to concerns regarding plan administration”
  - Altius – declined due to “contractual agreement with PEHP”





# Executive Summary

## Overall Issues

### Cautions

- No Aggregate Reinsurance available requires “load factor” for year 1
  - Load factor used to help build reserve and offset potential aggregate issues in year 1
- Network Disruption may occur depending on vendor selection
- Discounts will vary depending on vendor selection
  - Even within a vendor offering, discounts may vary depending on which network is selected
- No vendor accepts fiduciary liability
  - UHC will accept this for an increased fee



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# Proposed Plan Design



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# Plan Design Analysis

## Current Design

### ■ Comparison of Current Designs

	<u>Range</u>	<u>Most Common</u>
■ Deductible	\$0 - \$500	\$0
■ Out of Pocket	\$1,000 - \$1,500	\$1,500
■ Coinsurance	10% - 30%	10%
■ Office Visit	\$15 - \$20	\$20
■ Rx: Generic	\$7 - \$10, 20%	20%
■ Rx: Brand	20% - 50%	50%
■ Rx: Non-Formulary	35% - 50%	50%

Above is a summary of most common benefits in various county plans. The list is not all inclusive, but is a fair representation of the current situation.





# Proposed Plan Design

## Triple Offering within Pool

Benefit	PPO		HMO	QHDHP	
	In-Network	Out-of-Network	In-Network	In-Network	Out-of-Network
Deductible	Individual \$250 / Family \$500	Individual \$500 / Family \$1,000	\$0	Individual \$1,100 / Family \$2,200	Individual \$2,200 / Family \$4,400
Out of Pocket	Individual \$2,000 / Family \$4,000	Individual \$4,000 / Family \$8,000	Individual \$1,500 / Family \$3,000	Individual \$3,000 / Family \$6,000	Individual \$6,000 / Family \$12,000
Lifetime Max	\$2,000,000		\$2,000,000	\$2,000,000	
<b>Physician Services</b>					
Office Visit	After Deductible				
Preventive Care (pap smear, mammograms, routine exams, lab and xrays, hearing & vision tests)	\$20 co-pay	40% AD	\$20 co-pay	20% AD	40% AD
<b>Hospital Services</b>					
Inpatient	20% AD	40% AD	20%	20% AD	40% AD
Urgent Care Facility	20% AD	40% AD	20%	20% AD	40% AD
Emergency Room	After Deductible \$100 co-pay and 20%	After Deductible 100 co-pay and 20%	\$75 co-pay	20% AD	40% AD
<b>Prescription Drugs</b>					
	\$10 Generic / 25% \$25 minimum \$75 maximum Formulary Brand / 35% \$50 minimum \$150 maximum Non-Formulary Brand	\$10 Generic / 25% \$25 minimum \$75 maximum Formulary Brand / 35% \$50 minimum \$150 maximum Non-Formulary Brand	\$10 / \$25 / \$50	20% Generic \$10 minimum / 20% Formulary Brand \$25 minimum / 50% Non-Formulary Brand \$50 minimum	After Deductible, 20% Generic \$10 minimum / 20% Formulary Brand \$25 minimum / 50% Non-Formulary Brand \$50 minimum
Rx Retail - 31 day supply					
Mail order - 90 days supply	\$10 Generic / 20% Brand Formulary / 50% Brand Non-Formulary	\$10 Generic / 20% Brand Formulary / 50% Brand Non-Formulary	\$20 / \$50 / \$100	20% Generic \$20 minimum / 20% Formulary Brand \$50 minimum / 50% Non-Formulary Brand \$100 minimum	After Deductible, 20% Generic \$20 minimum / 20% Formulary Brand \$50 minimum / 50% Non-Formulary Brand \$100 minimum

AD = After Deductible

This is a brief overview of benefits only, details not provided.





# Propose Plan Design

## Plan Type Descriptions

<u>Plan Type</u>	<u>Advantages</u>	<u>Disadvantages</u>
HMO	"First Dollar" Benefit Managed Care by Provider Possibly deeper discounts	Less Choice of Provider Insulates Patient from Cost No out-of-network benefits
PPO	Discounts for care Management of care available Greater provider choice	No utilization controls implemented by plan design
QHDHP	Potential for Tax Favored Accounts Less cost insulation May reduce unnecessary utilization	Significant Deductible for employees Rx subject to deductible No "First Dollar" Benefits

Note: QHDHP is not an HRA or HSA. Rather, it is the insurance plan vehicle that allows counties to implement the financial accounts if desired.





# Proposed Plan Design Pharmacy Benefit

- **Pharmacy Benefit**
  - Rx Benefit is “bundled” with vendor quotes
  - Carve-out options evaluated, but not viable at this time
  - Savings from carve-out may be available in later years

	<u>PEHP – Option 1</u>	<u>PEHP – Option 2</u>	<u>Regence</u>	<u>UHC</u>
Rebates	Rebates will be returned to the Pool	Rebates will be returned to the Pool	Rebates will be returned to the Pool.	UHC retains 100% of Rx rebates
Discounts AWP	Medco discounts are confidential <u>Retail “Average”:</u> Brand AWP minus 15% Generic AWP minus 54%	Medco discounts are confidential <u>Retail “Average”:</u> Brand AWP minus 15% Generic AWP minus 54%	RegenceRx <u>Retail Discounts</u> Brand AWP minus 16% Generic MAC pricing	Medco – Retail Walgreens – Mail Order <u>Retail Discounts</u> Brand AWP minus 15% Generic AWP minus 57%



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# Vendor Submission Summaries





# Vendor Submissions

## PEHP – Option 1

Cost	Administration Fee:	\$32.12	PEPM
	Specific Reinsurance Fee:	\$16.06	\$75,000 12/15
	Total:	<b>\$48.18</b>	Medical & Rx
Network	Primary:	Preferred Network	Includes all Utah Hospitals – Broad network
	Secondary:	Advantage – IHC	IHC network only
		Summit – Altius	Altius network only
Extra Capability	Centers of Excellence arrangements with LDS Hospital, University of Utah Medical Center and Primary Children's Medical Ctr	Healthy Utah Wellness Program available for additional cost	
Limitations	Unable to accept outside network negotiations on Medical or Pharmacy claims	Unable to accept carve-out reinsurance coverage.	Upfront deposit required based on 1 to 3 months of projected claims.

Footnote: Estimates only. Administrative Fee based on 4% of total projected costs. Reinsurance based on 2% of total projected costs – Pool "true-up" in July, 2006. Assumes all Counties under 250 lives are administered by ULGT pool, unless they choose to opt out of ULGT administration





# Vendor Submissions

## PEHP – Option 2

Cost	Administration Fee: Specific Reinsurance Fee: Total:	\$36.13 <b>\$20.00 est</b> <b>\$56.13</b>	PEPM \$200,000 12/15 Medical Only
Network	Primary: Secondary:	Preferred Network  Advantage – IHC Summit – Altius	Includes all Utah Hospitals – Broad network IHC network only Altius network only
Extra Capability	Centers of Excellence arrangements with LDS Hospital, University of Utah Medical Center and Primary Children's Medical Ctr	Requires outside stop loss reinsurance coverage	Healthy Utah Wellness Program available for additional cost
Limitations	Unable to accept outside rate negotiations on Medical or Pharmacy claims (i.e. transplants, out of state, etc.)	Additional fee to access Summit network of \$9.95 pepm	Advantage network access fee is \$0 Upfront deposit required

Footnote: Estimates only. Administrative Fee based on 4.25% of total projected costs. Reinsurance quote from Allianz pending – approx. \$20 pepm





# Vendor Submissions

## Regence

Cost	Administration Fee: Specific Reinsurance Fee: Total:	\$39.15 \$12.90 <b>\$52.05</b>	PEPM (Includes LCM) \$200,000 12/15 Medical Only
Network	Primary: Secondary:	Traditional BCBS ValueCare or HealthWise	All Hospitals in Utah All Non-IHC Facilities
Extra Capability	Dental Administration EAP (4 visit model) Outside Reinsurance Capabilities	Special Beginnings – Maternity program National Network	Comprehensive Care Management programs available for additional cost
Limitations	Additional BlueCard fees if outside Utah provider is utilized Limited Consumer-Driven tools	HSA Administration is outsourced	FSA Administration is outsourced

Footnote: Administrative Fee based on group size, if group drops below 3,000 employees, fees will increase.





# Vendor Submissions

## United Health Care (UHC)

Cost	Administration Fee:	\$31.29	PEPM (\$32.02 for QHDHP)
	Specific Reinsurance Fee::	\$37.72	
	Total:	<b>\$69.01</b>	\$200,000 12/12 with TLO (see footnote) Medical Only
Network	Primary:	IHC	Adding U of U Medical Center eff. 1/1/06
	Secondary:	UHC Shared Savings Program	For Out-of-Network Claims
Extra Capability	Offers Health Savings Account administration through Exante Bank	Online health risk assessments	Will accept Fiduciary Liability for additional \$0.55 pepm
	Centers of Excellence (URN) United Behavioral Health included Performance Guarantees included	24-hour Nurseline Leader in Consumer-Driven Tools	3-Year Admin Fee caps FSA Administration
Limitations	Access to IHC Network only		

Footnote: TLO Terminal Liability Option fee paid 1<sup>st</sup> year only. Second and subsequent year contracts become Paid/15.

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# Vendor Comparison

## Cost Comparison

### Administrative Costs Comparison

	<u>PEHP-Option 2</u>	<u>Regence</u>	<u>UHC</u>
Administration	\$36.13	\$39.15	\$31.29
Stop Loss (Spec)	<b>\$20.00 est.</b>	\$12.90	\$37.72
Extra Costs	Additional Fees	Additional Fees	Additional Fees
<b>Subtotal</b>	<b>\$56.13</b>	<b>\$52.05</b>	<b>\$69.01</b>

“Extra” costs include (but not limited to): disease management, mothers & newborn programs, medical conversion, employee assistance programs, dental administration, BlueCard fees, fiduciary liability, 24-hour NurseLine, out-of-network discount negotiations, Healthy Utah Wellness Program, etc.





# Cost Comparison by Plan Design

## United HealthCare

### Example of total cost: Using UHC as Vendor

	<u>HMO</u>	<u>PPO</u>	<u>QHDHP</u>
Admin	\$31.29	\$31.29	\$32.02
Stop Loss (Spec)	\$37.72	\$37.72	\$37.72
Extra Costs	Not included	Not included	Not included
<i>Subtotal</i>	\$69.01	\$69.01	\$69.74
Expected Claims	\$622.24	\$577.10	\$509.87
<i>Subtotal</i>	\$691.25	\$646.11	\$579.61
Load (Agg / Reserve)	\$80	\$80	\$80
<b>Total</b>	<b>\$771.25</b>	<b>\$716.11</b>	<b>\$659.61</b>

Expected claims based on actuarial assumptions and claims experience.





# Vendor Comparison

## Network Providers

- **Network Providers (Facilities)**
  - UHC
    - Alta View, American Fork, Bear River Valley, Cassia Regional, Cottonwood, Delta Community, Dixie Regional, Fillmore Community, Garfield Memorial, Heber Valley, LDS, Logan Regional, McKay-Dee, Orem Community, Primary Children's, Sanpete Valley, Sevier Valley, TOSH, Utah Valley, Valley View and University of Utah Medical Center
  - Regence
    - Traditional Network includes ALL Utah hospitals
    - ValueCare Network includes St. Marks, SL Regional, University of Utah, Primary Children's, Pioneer Valley, Jordan Valley, Huntsman Cancer Institute, Logan Regional, Cache Valley Specialty, Brigham City, Bear River Valley, Ogden Regional, Davis North, Lakeview, Mountain West, Heber Valley, Ashley Valley, Timpanogos, Mountain View, Uintah Basin, Castleview, Sanpete Valley, Gunnison, Sevier Valley, Allen Memorial, Fillmore, Delta Community, Central Valley, Milford Valley, Beaver Valley, Garfield Memorial, Valley View, Dixie Regional, Kane County, San Juan County,
    - HeathWise Network mostly includes Wasatch Front facilities only





# Vendor Comparison

## Other Factors

- UHC
  - UHC legal services will require UCIP to provide certain organizational documents prior to effective date of coverage. If not provided, the group policy will not become effective.
  - Administrative fee assumes no more than 60 subgroups within 1 plan ID
- Regence
  - New hire waiting period will be no less than 30 days and no more than 120 days
  - Minimum participation is 80% of eligible and 50% of all employees
  - Employer pays a minimum of 75% of single rate or 50% of all premium
  - Change in enrollment +/- 10%, Regence reserves the right to recalculate rates
- PEHP – Option 1
  - UCIP must enroll and maintain 90% membership in the pool. Failure to establish membership quote of 90% will result in this quote being rescinded.
  - Once the pool is established, any change in enrollment by +/- 10% may require resetting of projected funding. (Projected Funding Required approx \$804 composite)
  - Final approval of UCIP established rates must be approved by PEHP
- PEHP – Option 2
  - PEHP assumes no risk
  - Positive cash-flow must be maintained by the pool at all times
  - All network and provider contract are negotiated and maintained by PEHP





# Vendor Comparison Cost Comparison

## Comparison of Vendors

	<u>PEHP</u>	<u>Regence</u>	<u>UHC</u>
HMO Rate	\$56.13	\$52.05	\$69.01
PPO Rate	\$56.13	\$52.05	\$69.01
QHDHP	\$56.13	\$52.05	\$69.74
Rx Rebates	Returned to UCIP	Returned to UCIP	Kept by UHC Add \$4.50 to ASO fees if rebates are returned to UCIP
Network	Preferred (IHC / Altius)	Non IHC (HMO / PPO) All on QHDHP	IHC Statewide – all Plans
Add'l Programs			Fiduciary
Extra Capability	Predictive Modeling		Consumerism Internet Access

Expected claims based on actuarial assumptions and claims experience. All vendor rates use the same expected claims rates shown on other exhibits.



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# Financial Analysis



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# Financial Analysis Summary

- Expected Claims Rate based on a blended, weighted average of actual claims costs from all counties interested in pool
- Specific Reinsurance level set at \$200,000 per incident
  - No aggregate reinsurance available in year 1
  - Due to quantity of assumptions required for expected claims
- Administrative costs vary by vendor
- Funding of pool assumed to be accomplished by a 'load' factor
  - Factor applied during year 1 of pool
  - Factor may be reduced in year 2
- Benefit Pool Trust to be administered by UCIP

It is assumed that the UCIP Benefits Pool would not pay run-out claims for current self-funded counties

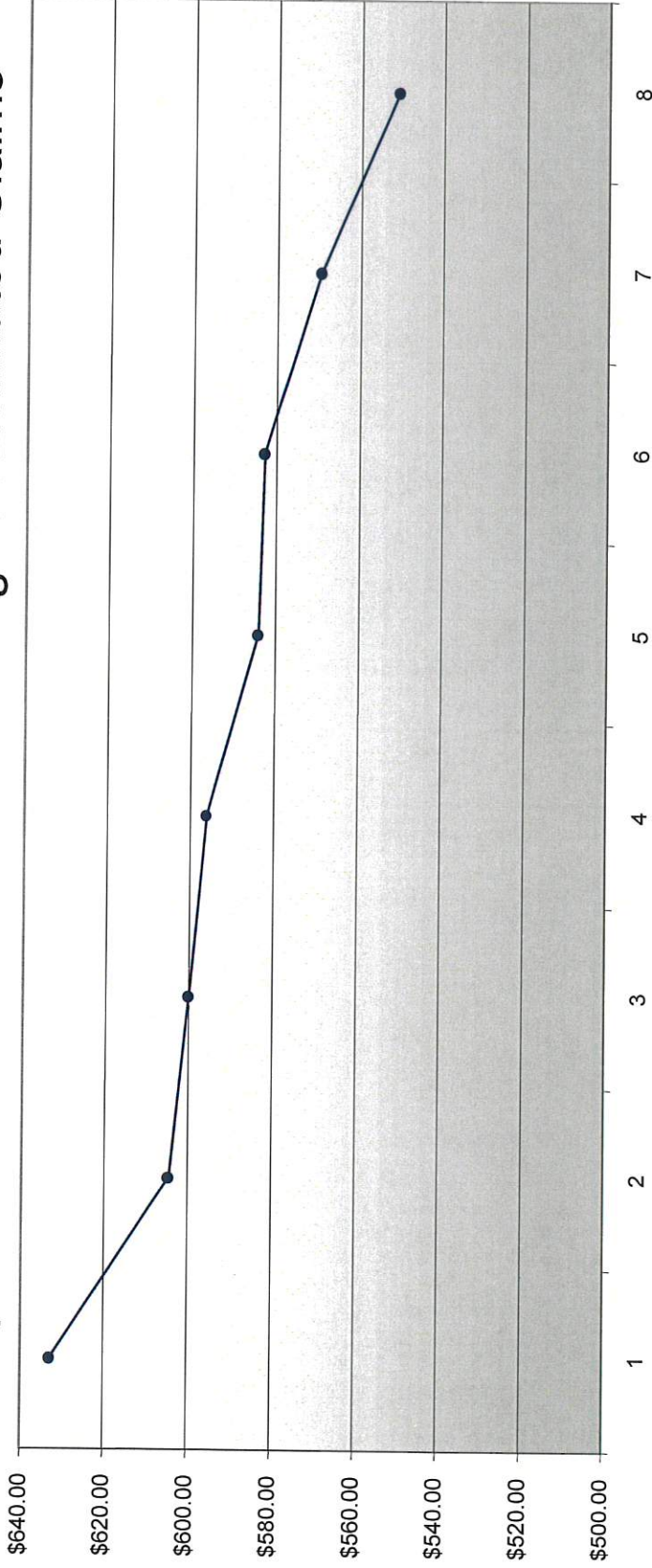




# Financial Analysis

## Medical Cost Comparison

Impact of Enrollment and Plan Design on Estimated Claims



PEPM Rates shown  
are claims only  
estimates

Plan	1	2	3	4	5	6	7	8
PPO	100%	60%	50%	45%	33%	25%	0%	0%
HMO	0%	25%	45%	45%	34%	60%	100%	0%
HDHP	0%	15%	5%	10%	33%	15%	0%	100%

Estimated savings range based on enrollment and other assumptions.

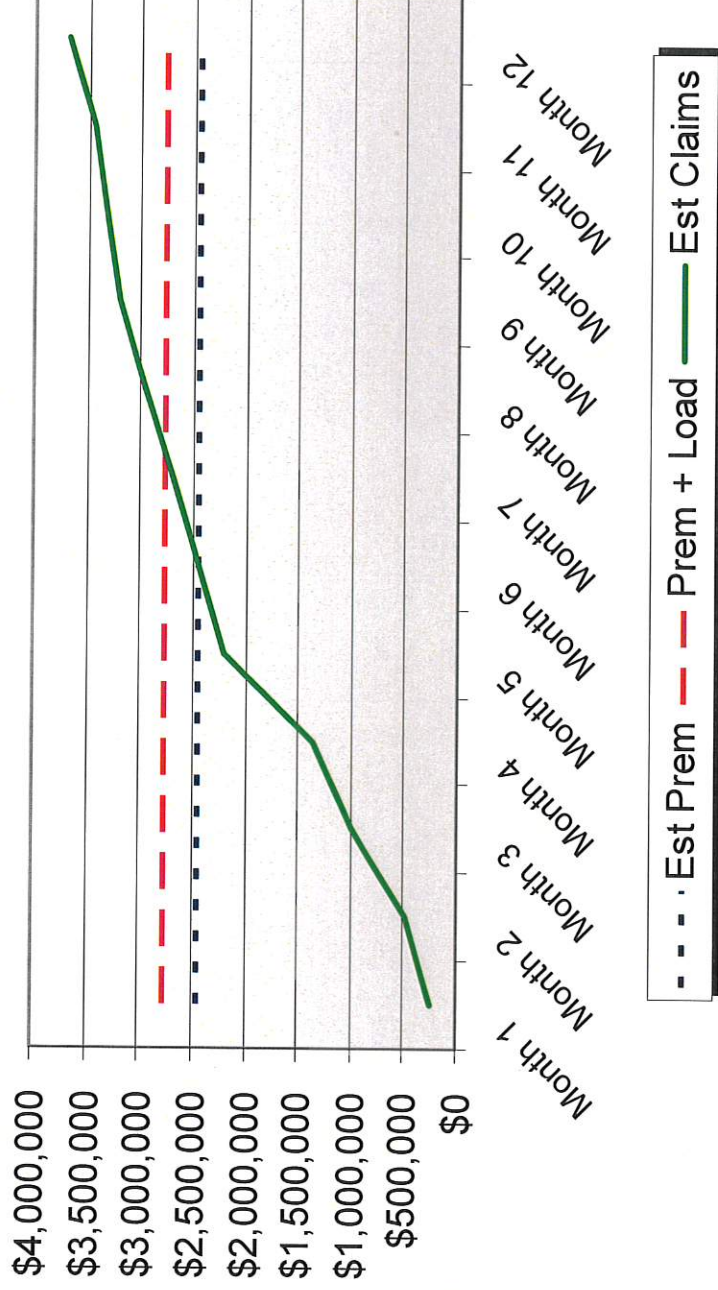




# Financial Analysis

## Funding Timing

Example of Premium and Claims by Month – Year 1



Premium assumes 3,746 enrolled distributed: 45% HMO, 45% PPO, 10% QHDHP





# Financial Comparison

## Cost Comparison

### Estimated Claims Rates

#### Administrative Costs Not included in this Exhibit

	<u>HMO</u>	<u>PPO</u>	<u>QHDHP</u>
Expected Claims	\$622	\$577	\$510
Load (Agg / Reserve)	\$80	\$80	\$80
<b>Total</b>	<b>\$702</b>	<b>\$657</b>	<b>\$590</b>

Expected claims based on actuarial assumptions and claims experience.  
Load Factor is approximately 1/2 of the usual 25% aggregate corridor





# Financial Analysis

## Additional Considerations

- **Other Factors:**
  - Above assumes that UCIP will establish and administer the trust
  - Counties will pay UCIP the pre-established premiums and load factors each month
  - UCIP will be responsible for payment of administrative costs and claims expenses
  - UCIP may require an 'opt in' fee
  - Future financial premiums may be adjusted by county (three tiers) based on county meeting pre-established criteria on cost management



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# Program Design **Recommendations**





# **Recommendations**

## **Summary of Recommendations and Next Steps**

- **Pool Participants**
  - County must “opt in” for all medical benefits
  - Affirmatively agree for three year participation
    - Year 1 will most likely by higher cost
    - Future years have better control of costs and trend
- **Design of Pool**
  - Three plan designs to “choose” (one, two, all)
  - Pool determines “premium” for each plan
  - County free to determine employee contribution, funding
- **Funding Requirements**
  - Subject to Vendor selection
  - Proposed Rates and Cost in other exhibits





# Vendor Comparison Overall Comparison

## Comparison of Vendors

	PEHP – Option 2	Regence	United HealthCare
Pay Claims	1	1	1
Network Access*	1	1	2
Network Discounts*	2	2	1
Health Management	2	2	1
Employee Education	2	2	1
Cost:			
Administrative Fee	2	3	1
Reinsurance Premium	2	1	3
Prescription Rebates	1	1	3
Prescription Discounts	3	1	2
Overall Cost	2	1	3

Based on "Preferred Network" for PEHP, "Traditional BCBS Network" for Regence and "IHC Network only" for UHC. Broader access and deeper discounts available through "secondary network" options (PEHP = Advantage and/or Summit; Regence = ValueCare and/or HealthWise).

RATING KEY:

1 = Best      2 = Good      3 = Acceptable





# Recommendations

## Summary of Recommendations and Next Steps

- Recommend Vendor use:
  - Regence – best overall match with UCIP needs
  - Cost competitive
  - Good network match
    - Traditional has virtually full coverage
    - Disruption possible with PPO (Valuecare)





# Recommendations

## Summary of Recommendations and Next Steps

### Financial considerations

- Capitalization requirements
- Three Year – “risk” adjustment required
  - Identify 5-10 strategic tasks that assist in controlling health costs
  - Rate each county on tasks –
  - Future premium rated up or down (two down, one up) based on adherence to cost control measures





# Recommendations Possible Pool Design

## County Expenditures

HMO Premium	PPO Premium	HDHP Premium
Risk Factor Adjustment		
“Buy – In” Fee		

## County Responsibility

Employer Financing Strategy (HRA / HSA / etc.)		
HMO Employee Contributions	PPO Employee Contributions	HDHP Employee Contributions
Communication to Employees		
Employee Enrollment		





# Recommendations Possible Pool Design

## UCIP Expenditures

Paid Claims All Plans HMO/PPO/HDHP
Admin Cost Inc. Stop Loss Prem.
Professional Fees

## UCIP Responsibility

Ideas for Funding Options		
HMO Funding Rates	PPO Funding Rates	HDHP Funding Rates
Renewal of Carriers / Vendors		
Evaluation of Carriers / Vendors		
General Employee Communication Materials		





# **Recommendations**

## **Elements Critical to Success**

- Commitment from key stakeholders
  - “Your Plan” mentality
- Clearly stated and realistic objectives
  - Short term and long term
- Established metrics for success
- Continual workgroup interface
- Tools, experience and information
- Design flexibility
- On-going utilization analysis





# Estimated Premium Rates Cost Comparison

## Estimated Plan Rates Rates based on Estimated Enrollment by Plan and Tier

	<u>HMO</u>	<u>PPO</u>	<u>QHDHP</u>
Single	\$413	\$393	\$363
Two Party	\$666	\$627	\$570
Family	\$920	\$862	\$777
<b>Composite</b>	<b>\$754</b>	<b>\$709</b>	<b>\$642</b>

Rates include: Regence Administrative costs, Regence Stop Loss, Expected claims (based on actuarial assumptions and claims experience), load factor of \$80.

Load Factor is approximately 1/2 of the usual 25% aggregate corridor





# Recommendations

## Next Steps

- Final Decision on Vendor Selection
  - Goal: Sept 1
- Information to Counties – Opt in / Opt out Decisions
  - Goal: Sept 15
- Finalize Rates (may change due to final enrollment)
  - Goal: Sept 20



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# Questions

